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JAPANESE PATENT POLICY

HEARING

BEFORE THE

SUBCOMMITTEE ON FOREIGN COMMERCE AND TOURISM

OF THE

COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION

UNITED STATES SENATE

ONE HUNDRED FIRST CONGRESS

FIRST SESSION

ON

JAPANESE PATENT POLICY

FEBRUARY 28, 1989

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JAPANESE PATENT POLICY

TUESDAY, FEBRUARY 28, 1989

U.S. SENATE,
COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION,
SUBCOMMITTEE ON FOREIGN COMMERCE AND TOURISM,
Washington, DC.

The subcommittee met, pursuant to notice, at 9:33 a.m., in room SR-253, Russell Senate Office Building, Hon. John D. Rockefeller IV (chairman of the subcommittee) presiding.

Staff members assigned to this hearing: Loretta Dunn, staff counsel; Sally Sussman, professional staff member; Mark Farrell and Fiona Branton, minority staff counsels.

OPENING STATEMENT BY SENATOR ROCKEFELLER

Senator ROCKEFELLER. The hearing will come to order.

I have a short opening statement.

I am very pleased that we are holding this hearing on the effect of the Japanese Patent System on American business. The Foreign Commerce and Tourism Subcommittee first addressed this issue last June when we heard from administration, industry, and academic representatives. I am no less concerned today than I was then about the trends in the United States/Japan trade relationship, especially in the high tech area. Although our bilateral trade deficit with Japan was 7 percent lower last year than in 1987, the declining trend during the first nine months of 1988 was reversed in the fourth quarter, and there is growing concern that the bilateral deficit may begin to rise again in 1989. I also have seen little indication that the great imbalance in the flow of technology between out two countries has begun to be corrected.

In July of last year, the Senate passed a Sense of the Senate resolution that listed a number of constraints foreign companies face when they seek to obtain patents in Japan. This resolution called on the executive branch to encourage Japan to ensure that foreign firms are not disadvantaged by the workings of its patent system.

The following month, the United States/Japan Working Group on Intellectual Property, a group under the United States/Japan Trade Committee, held its first meeting. Since then, there have been sessions on patent harmonization by a trilateral group composed of the United States, Japan, and the Europeans, as well as continued negotiations in the Uruguay Round and WIPO on intellectual property issues. I am exceptionally pleased that our lead-off witness today will be Mike Kirk from the U.S. Patent and Trademark Office who has played the leadership role in all these negotiations, and I look forward to an update from him.

Following Mr. Kirk will be a panel composed of Alan Lourie, who is Chairman of the United States side of a joint patent task force established by the United States/Japan Business Council, and Alfred Hirsch, who is President of the United States side of the Pacific Intellectual Property Association, known by the acronym PIPA. A third member of this panel, Karl Jorda, who is Corporate Patent Counsel for CIBA-GEIGY and a past-President of PIPA, was unable to join us today because of illness. I invite Mr. Jorda to submit written testimony for the record if he wishes.

Before turning to Mr. Kirk, I would like to repeat a point I made at the beginning of our earlier hearing. I am not here to be critical of the Japanese Patent Office, an institution staffed by highly trained and thoroughly professional individuals. The problem is that the patent system in Japan, its structure, and the environment in which it operates, are not conducive to the protection of intellectual property that is required today. I hope that this subcommittee's continuing effort to focus on the problems foreign companies confront when they are up against the Japanese patent system will help bring about a solution.

Senator Burns.

OPENING STATEMENT BY SENATOR BURNS

Senator BURNS. Thank you, Mr. Chairman. We have a public lands hearing starting this morning, so we have two hearing underway, and both of them are quite important.

Mr. Chairman, I want to thank you for pursuing this important issue in these hearings. I cannot think of anything more important to the development of American technology than the protection of that technology, not only for the financial rewards, but for those who have invested their time and God-given talents. Most importantly, technology is one of America's great resources.

I am new to this committee and new to the U.S. Senate, but I pledge my support to this committee and, of course, to its chairman and what he is trying to accomplish.

I spent most of this past weekend getting myself up to speed on the patent problem that this country faces and thinking about what we should be doing to correct some of the injustices that have occurred in this area.

After reading last year's testimony of Donald Quigg, the Assistant Secretary and Commissioner of Patents and Trademarks, it is easy to identify the problem. It also provides an explanation as to why Japan has been outgunning American industry a little bit.

Last year the U.S. trade deficit was over $137 billion, including a $52 billion bilateral deficit with Japan. Healthy international trade is important to many American industries.

Protecting American inventions and intellectual property abroad is one way that we can improve the ability of American companies to compete in foreign markets.

The future of the United States is in high technology. If we want to improve our trade deficit and remain economically viable into the next century, we must remain competitive in high technology industries.

Although Japan currently has the advantage in manufacturing consumer products, the United States still leads the world in research and development capability. In order to protect American intellectual and scientific efforts, American business must learn to understand the Japanese patent system and its effects on the ability of those companies to make, use and sell their products.

If American inventions are not protected abroad, American companies will not invest the money on research time to develop these new products. America cannot maintain its competitive edge in the world of commerce if our nation's businesses are not able to benefit from their innovative research and development.

Our government must continue to make sure that the world competitors not only compete on a level playing field, but that we also operate from the same rule book. It appears that the latter will take some time to achieve. Nonetheless, this government must pursue the goals of fairness.

I welcome the opportunity to be heard this morning, to learn more as testimony unfolds. I hope I can add something to it and find some sort of a comfortable solution to the problem. I intend to ask questions but mainly I want to sit and listen because it is a new field for me, and I appreciate this opportunity very much. Thank you, Mr. Chairman.

Senator ROCKEFELLER. Senator Packwood.

OPENING STATEMENT BY SENATOR PACKWOOD

Senator PACKWOOD. Mr. Chairman, thank you very much for holding this hearing. During our last hearing on this topic in June, I requested that the chairman hold a second hearing. He had actually scheduled one at a time I could not come, and he was very kind to reschedule it at this time when I could come.

I think we are all aiming toward the same objective, and that is to get a harmonious worldwide patent system that all those who seek patents understand. The more uniformity, the better, I think, from the standpoint of all—at least of the major industrial countries that are seeking patents.

And, of course, America would love to have a patent system like those that exist in other countries but if that is not what we have, then perhaps we could consider changing to what exists elsewhere. But most importantly, we do seek what Senator Burns just said, a level playing field and the same rights every where.

Recent patent negotiations have indicated that the problem is not so much the patent system as it is the lack of effort of some of the countries to give protection to our intellectual property rights.

The issue is not just patents. Some countries just do not give any protection, period, for patents or other intellectual property. It is not that they deny that we have a right to a patent. They just say they do not care. That is a separate issue from what we deal with here, and that is to attempt to harmonize the patent systems of the major countries so that they are roughly equivalent, no matter where you are attempting to get your patent.

Senator ROCKEFELLER. Senator Danforth.

OPENING STATEMENT BY SENATOR DANFORTH

Senator DANFORTH. Mr. Chairman, I do not really have an opening statement. I am delighted you are holding these hearings. This is obviously an important subject.

We talked about fair trade and fair opportunity for American industry.

When we talk about patent protection, of course, we talk about our most innovative industries, areas where the United States is on the cutting edge.

Now, where we have the comparative advantage, the result of inadequate protection of American inventions in Japan has been the cross-licensing of American technology to the Japanese, and that presents a whole host of problems.

This certainly deserves the attention of this committee, and I appreciate your bringing this to the attention of the committee.

Senator ROCKEFELLER. Thank you, Senator.

I have opening statements from the chairman, Senator Hollings, and Senator Bryan that I will include in the record and then we will move right to Mike Kirk.

[The statements follow:]

OPENING STATEMENT BY THE CHAIRMAN

Today, the Foreign Commerce and Tourism Subcommittee will conduct its second hearing on the Japanese patent system and its effect on U.S. businesses. I would like to congratulate Senator Rockefeller for his work in this area.

First, let me note that we all realize that the U.S. system is different from the Japanese system—indeed, it is different from almost all patent systems around the globe. However, the Japanese system has been modeled on West German patent law and it is useful to compare the experience of U.S. companies in Europe and Japan.

The fact of the matter is that in most developed countries, foreigners are generally awarded about 40% of the patents issued, in the U.S. the figure is 45%. In Japan, however, foreigners were awarded only 17% of the patents issued. And while the U.S. government receives lots of complaints about getting and enforcing patents in Japan, you don't hear many complaints about West Germany.

It has been claimed that the Japanese system is particularly difficult for small companies to manage—since many innovative, "high tech" companies in the U.S. are small businesses—that works to our disadvantage.

It is often argued that the Japanese patent system strongly "encourages" licensing of technology. One Japanese attorney has observed that the system may be deliberately inefficient and slow to encourage the parties to settle.

The problem with a system that mandates or strongly encourages licensing of U.S. technology to Japanese competitors is, that while royalties accrue to the U.S. inventor, it does nothing for the U.S. workers or U.S. exports. This licensed technology often comes back to haunt the original U.S. workers or U.S. inventor when he ends up fighting for market share, around the world and even in the U.S. with Japanese competitors on his own invention!

The first witness today, Mr. Kirk of the U.S. Patent Office, will discuss U.S. government efforts to improve protection for U.S. inventors around the world. Then Mr. Hirsch and Mr. Lourie will explain the efforts of the Pacific Industrial Property Association and the U.S.-Japan Business Council to address some bilateral problems in the patent area.

OPENING STATEMENT BY SENATOR BRYAN

Mr. Chairman, this is my first meeting of the Foreign Commerce and Tourism Subcommittee. I look forward to working with you as well as other members on a wide variety of issues before our subcommittee.

I commend you for holding this hearing today. Patents play a central role in encouraging inventive and entreprenurial individuals and businesses and in protecting their property rights. However, patents may also serve as a barrier—a nontariff bar-

rier—to trade. The hearing today is important to address differences between the Japanese and United States patent systems. I understand that some of the aspects of the Japanese patent system have served to impair substantially the ability of U.S. firms to develop and market their technology in Japan. In most developed countries, foreign inventors are awarded approximately forty percent of all patents granted. In the United States, the proportion is forty-five percent. In Japan, foreigners have been awarded only 17% of patents issued.

Many of the differences between the Japanese and United States patent systems exist due to inherent cultural differences, and we must accord our ally every consideration in this respect. However, it has been argued that some of the differences of the Japanese system pose particular difficulties for small businesses. The United States is proud that small businesses are often at the center of job creation and technological innovation. However, because many high-tech firms in the United States are small, they are at a disadvantage under the Japanese system. For example, the Japanese allowance for opposition to patents can lead to years of bureaucratic proceedings which can be particularly cumbersome to small firms in the United States.

I look forward to hearing the testimony today and to encouraging firms on both sides of the Pacific to engage in free and fair trade.

Senator ROCKEFELLER. So, Mr. Kirk, we look forward to what you have to say, sir.

STATEMENT OF MICHAEL K. KIRK, ASSISTANT COMMISSIONER FOR EXTERNAL AFFAIRS, PATENT AND TRADEMARK OFFICE, DEPARTMENT OF COMMERCE

Mr. KIRK. Thank you. Mr. Chairman, and Members of the subcommittee, I am pleased to appear before this subcommittee today to discuss the steps the United States Government is taking to eliminate the problems that United States businesses face in obtaining and enforcing intellectual property rights in Japan.

I ask that the full text of my statement which was filed with the subcommittee be placed in the record. This morning I will briefly highlight my detailed statement and then answer any questions you may have.

The United States and Japan, along with other nations, are negotiating a treaty under the auspices of the World Intellectual Property Organization, WIPO, to harmonize certain aspects of patent law and practice.

The draft treaty will cover mundane topics such as the details of naming an inventor in a patent application, to issues of fundamental importance such as subject matter which must be protected, the breadth of coverage of patent claims, and the term of protection.

While these negotiations will bring about benefits for United States innovators who seek patent protection in Japan, both the United States and Japanese patent laws will have to be changed, if the WIPO negotiations are successful and both nations join the resulting treaty. A revised text of the treaty will be considered at a meeting in April of this year, and a diplomatic conference to consider and adopt a treaty is scheduled for the 1990–91 biennium of WIPO.

Mr. Chairman, you mentioned the trilateral activity going on in which the Japanese Patent Office, the United States Patent and Trademark Office and the European Patent Office are involved.

This began as an effort to coordinate the automation efforts of the three offices of their search files and administrative records. It has since expanded into an effort to analyze and coordinate certain procedural rules and national laws.

Because the European Patent Office is a creature of its 13 member states and has not been given the authority to negotiate on their behalf in discussing matters which could lead to the amendment of its underlying treaty, a new group, referred to as the Club of Fifteen, has been formed which consists of Japan, the United States, and the 13 member states of the European Patent Convention.

This Club of Fifteen, at its initial meeting last October, decided that it would attempt to develop a common position on the substantive issues being negotiated as part of the WIPO draft harmonization treaty, including some additional topics that might be added to the WIPO negotiations.

The second meeting of the Club of Fifteen will be held in April just prior to the WIPO meeting on the draft harmonization treaty.

Turning now to the activities of the United States government in the GATT insofar as intellectual property is concerned, both the United States and Japan are seeking to establish minimum standards for intellectual property protection worldwide as part of the Uruguay Round of multilateral trade negotiations.

Japan and the United States, along with the European Communities, Switzerland and the Nordic countries have presented proposals calling for negotiating an agreement in the GATT that would specify, among other things, the types of inventions which must be patentable, the rights conferred by a patent, the term of a patent, conditions of patentability, and the conditions under which a compulsory license of a patent would be permissible.

In addition to establishing the substantive standards for protecting patent rights, the agreement would also establish mechanisms to effectively enforce intellectual property rights, both internally and at the border, and provide a forum to ensure that countries live up to their obligations.

Although there are some differences in the details of the proposals made by the two countries, Japan was the strongest supporter of the United States at the ministerial midterm review in Montreal in December and at the consultation held under the auspices of the Director General of the GATT earlier this month to seek a solution in the impasse in the IPR area.

Finally, the United States-Japan Trade Committee in April of last year established a Working Group on Intellectual Property to discuss trade related intellectual property issues of concern to the two countries. This group met last August and discussed, in addition to other intellectual property issues of mutual concern, patent issues such as delays in processing patent applications in Japan, protracted infringement proceedings in Japan, narrow claim interpretation by Japanese courts, compulsory patent licensing, and the inability to file English language applications in Japan and correct translation errors by referencing this original English language application.

The Japanese for their part raised our first-to-invent priority system, our measuring the term of a patent from grant rather than from filing as they do, and, of course, section 337 of the Tariff Act of 1930.

We will meet again next month for a 1-week more-in-depth discussion on these subjects. A solution to the problems we face in

Japan will not come overnight nor will it come without our making some changes in our laws. The Japanese have supported many of the United States positions on intellectual property in multilateral fora, as I mentioned, in the GATT especially, and I am hopeful that we will be able eventually to resolve our differences through these negotiations.

Mr. Chairman, that concludes my prepared remarks, and I will be happy to attempt to answer any questions you or the other members might have.

[The statement follows:]

Statement of
Michael K. Kirk
Assistant Commissioner for External Affairs
Before the
Subcommittee on Foreign Commerce and Tourism
Committee on Commerce, Science and Transportation
United States Senate
February 28, 1989

Mr. Chairman and Members of the Subcommittee:

I am pleased to appear before this Subcommittee today to discuss four different sets of current negotiations that will affect the protection of intellectual property in the United States and Japan. They are:

1) The negotiation of a "Draft Treaty on the Harmonization of Certain Provisions in Laws for the Protection of Inventions";

2) The discussions on harmonizing patent laws and practices between the European Patent Office, the Japanese Patent Office, and the United States Patent and Trademark Office (or "Trilateral");

3) The negotiations on intellectual property in the Uruguay Round Multilateral Trade Talks; and

4) The discussions between the United States and Japan in the Intellectual Property Working Group under the U.S./Japan Trade Committee.

Draft Treaty on the Harmonization of Patent Laws

Beginning in 1985, the World Intellectual Property Organization (WIPO) has held a series of meetings of patent experts to develop a treaty on the harmonization of certain aspects of national patent laws. The draft treaty currently consists of 19 articles, some accompanied by rules. The subject matter of these articles ranges from the mundane - the details of naming an inventor in a patent application - to fundamental issues of considerable significance - the subject matter protectable by a patent, the length of the term or duration of a patent, the scope or breadth of protection to be afforded through interpretation of patent claims, and whether a patent should be granted to the first person to file a patent application (first-to-file) or to the first person to make an invention (first-to-invent).

On some of these topics, the United States is, for lack of a better term, the target. I mentioned first-to-file, which would require the United States to change from its first-to-invent approach, but there are also a number of of other areas where the United States would have to make significant changes in its patent law in order to participate in such a treaty.

One such area involves the date and purposes for which a U.S. patent or patent application may be considered as a reference against a later filed patent application. At present, a U.S. patent may be used to show lack of novelty or obviousness of an invention claimed in a later filed U.S. patent application. The relevant date is the date on which the application that resulted in that U.S. patent was filed in the United States. A U.S.

patent application which does not mature into a patent may only be used as a reference as of the date it is published. If it is not published, it may not be used as a reference.

This practice of using the filing date in the United States as the determinative date for considering a patent as a reference applies even where its underlying application is entitled to claim the filing date or priority date of a corresponding application filed earlier in another country. This practice is based on a court decision and is referred to as the Hilmer doctrine.

Article 202 of the WIPO draft treaty would require the United States to change this practice. Under Article 202, a patent application could be used as reference against a later filed patent application only to show lack of novelty, but only if the earlier filed patent application is later published or issued as a patent. The draft article would require the United States to give this novelty defeating effect as of the U.S. filing date or, if the filing date of a foreign filed patent application is claimed, the foreign priority date instead of the U.S. filing date, thus partially overruling the Hilmer doctrine. The draft article would permit a patent application or patent to be used to show obviousness as of the date the patent application is published or the patent is issued. I might mention that Japanese law would not be altered by draft Article 202.

Several proposals put forward by the United States would also require changes in domestic patent law. A patent term of twenty years from filing and restoration of the right to claim a priority date are examples.

With particular reference to Japan, several of the articles in the WIPO draft treaty would bring about, in our view, desirable improvements. Perhaps none is more important than Article 304 and its accompanying Rule which deal with the scope or breadth of protection an invention would receive through interpretation of claims. Many practitioners in the United States believe that Japanese courts have been less than friendly in providing a fair measure of protection to patented inventions. Japanese courts have, by referring to examples contained in a patent specification, imposed limitations which do not appear in the language of the claims. In other situations, accused infringers have avoided liability by merely substituting an obvious equivalent for one of the elements in a patent claim.

If adopted by Japan, draft Article 304 and its accompanying Rule, with amendments proposed by the United States, would change that situation. First, the Rule would require that a country protect any product or process that is literally covered by the wording of the claims. Second, it would require the application of a doctrine of equivalents so that liability could not be avoided where an obvious substitute is used for a claimed element of an invention. Finally, the Rule would prohibit a court from finding non-infringement simply because the claimed invention is different from the examples disclosed in the patent specification or because the claimed invention does not achieve every object or advantage stated for the invention.

Another article particularly relevant to Japan is draft Article 101, which addresses the requirements for granting a filing date

to an application. As presently drafted, this Article would permit a country to require that an application, if not filed in the language of the country, be accompanied by a translation into that language. The United States has strongly supported such flexibility and suggested, in addition, that the applicant be permitted to rely upon his or her original, "mother tongue" application for purposes of correcting errors in the translation.

A third article, particularly relevant to Japan, is draft Article 201 which would establish an international grace period. Inventors frequently publicize their inventions before they file a patent application. In the United States, an inventor has one year in which to file after publicly disclosing his invention. No formalities, e.g., special requests, affidavits, etc., are required. In Japan, by contrast, the inventor must file within six months, and then only for limited types of disclosures and only if he requests benefit of the grace period upon filing. Failure to file within six months, or to satisfy the other conditions, would bar an applicant from receiving a patent in Japan. Moreover, a grace period only excuses disclosures for purposes of obtaining a patent in the country which has the grace period provisions in its national patent law. Thus, if a United States inventor publishes his invention and files a U.S. patent application nine months later, he may obtain a U.S. patent if his invention satisfies the statutory criteria. He would not, however, qualify for a patent in Japan which has only a six month grace period.

Draft Article 201 would remedy this situation by establishing a general grace period of twelve months, without any formalities,

which would be measured from the first filing date (or priority date). Thus, in the example above, not only would the applicant obtain a U.S. patent, the applicant could also obtain a Japanese patent.

Some improvements in Japanese patent law could result from a successful conclusion of the WIPO harmonization treaty. In fact, at the last experts' meeting which was held this past December, both the United States and Japan put forward some new proposals for inclusion in the draft treaty which would affect, in particular, the laws of the other. I will comment more on these proposals when I discuss the trilateral talks.

There have been six experts' meetings to discuss the various topics. In April, a text revised to take into account the comments made at the past two meetings will be considered, and a Diplomatic Conference to consider and adopt the treaty is tentatively set for the 1990-91 biennium.

Trilateral Discussions

The discussions between the Japanese Patent Office, the European Patent Office, and the U.S. Patent and Trademark Office, which have come to be known by the term "trilateral," are increasingly relevant to the draft WIPO harmonization treaty discussions. The trilateral discussions were instituted to coordinate the automation of the three offices. As a result, the initial discussions included matters relating to the types of patent information to be exchanged, the conditions for such exchanges, the format and medium for exchanges, and generally

sharing the experiences of the three offices as they move toward automating their search files and administrative records.

After the trilateral discussions were underway for several years, the European and Japanese Patent Offices suggested that the discussions might usefully expand to the question of harmonization of patent laws and practices. The initial concept involved conducting comparative analyses of various aspects of patent practice to determine whether there would be any possiblity for harmonization.

The first analysis involved unity of invention, a topic which is also included in the draft WIPO harmonization treaty. Unity of invention refers to the rules for determining how many related inventions an applicant can include in a single patent application. For example, in addition to a new product, can a process for making the product and a method for using the product be included in a single application? A common approach would help applicants seeking patents in the three offices.

At the sixth Trilateral Conference in Tokyo last November, the three offices agreed upon a unity of invention practice which we will implement in our respective offices. In addition, we have already proposed that this agreed practice be substituted for the proposal in the draft harmonization treaty in WIPO, and we will also propose it as a substitute for the existing rule on unity in the Patent Cooperation Treaty.

Additional topics suggested for comparative analysis include the practices of the three offices with respect to biotechnology,

inventive step, computer-related inventions, and disclosure requirements. The United States, after consulting with the user community, proposed a comparative analysis of a number of "administrative practices" such as examiner interview practice, extensions of time to reply to official actions, requirements for claiming a right of priority, and other areas where we believed that applicants should benefit from harmonization by the three offices. Our view was that these were not matters of fundamental significance, but rather matters of a more administrative nature that should not be difficult to harmonize.

We quickly learned, however, that what we regarded as an administrative matter was regarded by the Japanese and European Offices as being a matter of substance if it required any change in their underlying substantive law or treaty. This effectively limited the harmonization discussions as far as our two partners were concerned to practices they could implement without changing underlying statutory or treaty authority. This limitation coupled with criticisms of U.S. patent law from both the Japanese government and industry, prompted the United States to develop a comprehensive harmonization proposal in which the concerns regarding United States patent law were balanced with concerns which the United States had with the patent laws of Japan and Europe.

We then encountered another obstacle, namely that the European Patent Office could not discuss matters which would even imply any ability on their part to modify their underlying treaty. The European Patent Office is a creature of its 13 member states and has no authority or mandate to discuss proposals for

harmonizing substantive patent law which might require changes in the laws of its member states. Accordingly, we took the view that the trilateral partners should either obtain the authority needed to conduct meaningful discussions on substantive patent law harmonization, or the topic should be removed from the agenda of the trilateral discussions.

The European Patent Office raised this matter with its governing Administrative Council in April of last year and a revised format was proposed for dealing with substantive patent law questions. The format, in essence, is that the 13 member states of the European Patent Office (which they refer to as the Club of Munich), the Japanese Patent Office and the United States Patent and Trademark Office should meet to discuss the future direction of patent law harmonization proposals in the context of the trilateral. The first meeting of these 15 countries (referred to by the Europeans as the Club of 15) occurred in Munich in October. The Club of 15 decided that it should attempt to develop a common position on the substantive issues under discussion in WIPO, factoring in certain topics raised in the trilateral which are not in the WIPO draft treaty.

While some believe that the common interests of the parties in the trilateral offers greater hope for success, there was a reluctance to take steps which might imply that countries were abandoning or giving up on WIPO. Should, as some fear, the negotiations in WIPO become mired in UN-style negotiating tactics, the Club of 15 will revisit the question of whether a separate treaty outside WIPO should be pursued.

There are sixteen topics in the comprehensive harmonization proposal which the United States Patent and Trademark Office developed, seven of which are not currently included in the draft WIPO harmonization treaty. Although none of the three o ices wishes to add all seven topics to the WIPO discussions, both the U.S. Patent and Trademark Office and the Japanese Patent Office have suggested that some of these topics be included in the WIPO harmonization discussions. The provisions which the United States proposed would 1) preclude or limit deferred examination (of the type currently in the laws of Japan, the Netherlands, and the Federal Republic of Germany) and 2) preclude the possibility of a pre-grant opposition. Proposals put forward by the Japanese Patent Office would 1) require mandatory 18-month publication of pending applications, 2) preclude broadened reissue patents, and 3) expand third party participation in any opposition or reexamination proceeding.

It is clear, of course, that the proposals to preclude deferred examination and pre-grant oppositions are especially significant with respect to Japan. The pre-grant opposition has, on occasion, prevented U.S. applicants for patents in Japan from obtaining a patent for an extended number of years from filing. The deferred examination system in Japan has the major disadvantage of confronting applicants, especially foreign applicants who have difficulties with the Japanese language, with more than 2 1/2 million pending Japanese patent applications which could conceivably be the subject of a request for examination and subsequent patenting.

The next meeting of the Club of 15 is scheduled for April, just before the next meeting of the WIPO Committee of Experts on

patent harmonization. The topics for discussion by the Club of 15 will include the proposals by Japan and the United States along with a number of the other topics to better prepare for the WIPO Experts meeting.

Intellectual Property Negotiations in the Uruguay Round

The intellectual property talks currently underway in the Uruguay Round will also have an effect on the intellectual property laws of Japan. The Uruguay Round was officially launched in September, 1986, with the Ministerial Declaration at Punta del Este. Improving intellectual property rights was one of the more than one dozen topics for which negotiations were authorized. The talks on intellectual property take place in the Negotiating Group on the Trade Related Aspects of Intellectual Property Rights or "TRIPS".

The United States was a leading proponent for including intellectual property rights in the Uruguay Round because of dissatisfaction with the existing international regimes for their protection. This reflects an unwillingness on the part of U.S. companies and nationals to continue to tolerate the wide-spread infringement of their intellectual property rights in countries around the world and the seeming inability of WIPO to effectively bring about improvements in this situation. There have been 11 meetings of the TRIPS Negotiating Group since the ministerial meeting in Punta del Este. Those participants who are interested in improving the protection and enforcement of intellectual property have discussed substance and have made substantive contributions in the Negotiating Group. The

European Community, Japan, Switzerland, the Nordic countries, and the United States have presented proposals that would provide adequate and effective protection of intellectual property rights and eliminate trade distortions caused by the lack of such protection.

The United States presented a comprehensive proposal this past October which includes substantive standards for patents, trademarks, copyrights, trade secrets, and semiconductor integrated circuit lay-out designs as well as proposals for the effective enforcement of these rights both internally and at the border. The European Community proposal covers these areas and adds: neighboring rights protection for broadcasters, performers, and producers of phonograms; geographical indications including appellations of origin; and, industrial models and designs. The most recent Japanese proposal is also similar to that of the United States and would, like the Community's, cover industrial designs and neighboring rights. However, unlike either the proposals of Community or the United States, the Japanese proposal does not address trade secrets. The Swiss and Nordic proposals go in the same direction as the EC, Japanese and U.S. proposals, but are not as detailed or specific.

There are many similarities in the proposals that the European Community, Japan and the United States have presented in the TRIPS Negotiating Group. These similarities stem in no small measure from the efforts of the private sectors in the United States, Japan, and Europe to advance the negotiating process by suggesting appropriate standards for the various areas of intellectual property under discussion.

In the area of patents, the proposals presented by the United States and Japan both include standards covering 1) the types of inventions to be considered eligible for patents, 2) the duration of patent protection, 3) the rights conferred by a patent, 4) conditions of patentability, and 5) conditions for the grant of compulsory licenses and forfeiture or revocation of patents.

I should emphasize that our goal in GATT is not harmonization of laws. Unlike the patent law harmonization discussions in WIPO or the trilateral, the effort in TRIPS is to establish minimum substantive standards for protection of intellectual property rights, measures for the effective enforcement of these rights both internally and at the border, and a dispute settlement mechanism to ensure that participants fulfill their obligations.

In some respects, of course, minimum standards in GATT and proposals for harmonization in WIPO and the trilateral tend to merge. One good example involves the question of the term of a patent. In WIPO, the Trilateral, and TRIPS, Japan and the United States have proposed or supported a term of at least 20 years from the filing date of a patent application. In addition, the proposals of both Japan and the United States in the TRIPS Negotiating Group dealing with the rights conferred by a patent and the subject matter to be covered by a patent also overlap to a considerable degree with the proposals in the WIPO draft treaty dealing with the same issues.

It is interesting to note in this regard that the most recent Japanese proposal in the TRIPS Negotiating Group regarding term would require the Japanese to change their domestic law so that

the term of a patent would be measured only by the criteria of 20 years from the date of filing and not by their existing second criteria of no more than 15 years from the date of grant. Of course, for reasons which I will cover later, Japan's willingness to abandon the second aspect of Japanese patent law regarding term may not have much practical effect on holders of Japanese patents.

Although there is considerable agreement between the United States and Japan on the minimum standards for the various fields of intellectual property, there are two significant areas of disagreement in the patent standards that deserve mention. First, with respect to inventions eligible for patenting, the Japanese proposal would permit exceptions for inventions which are "contrary to public order, morality or public health." We disagree with the inclusion of such vague and potentially sweeping exceptions to patent coverage. In our view, it would be preferable simply to include all processes and products and grant patents in every case where the invention satisfies the conditions for patentability.

The other area of disagreement with the proposal by the Japanese lies in the area of non-voluntary licenses and forfeiture of patents. The minimum standards proposed by Japan for non-voluntary licenses would expressly permit such licenses for dependent patents or for the "public interest" and would not exclude the possibility of such licenses being granted to exclude the patent holder from practicing the invention.

In the area of trademarks, the Japanese proposal would not, like the U.S. and European Community proposals, require the

registration of service marks. Moreover, it would preclude countries such as the United States from requiring use of a trademark prior to registration as a condition for registration.

In the area of copyright, the Japanese proposal would essentially rely upon the Paris Act of the Berne Convention for the Protection of Literary and Artistic Works. Not only would this continue certain lacunae of the Berne Convention, for example, the lack of an explicit requirement confirming that computer software is to be protected as a literary or artistic work, but it also, by relying on neighboring rights protection, would not mandate that the producers of phonograms receive the full copyright protection they enjoy in the United States. Specifically, this latter feature would only require protection of phonograms for a period of twenty years from the end of the year in which the fixation was made rather than the fifty year-from-publication proposal of the United States.

The omission in the Japanese proposal of any protection for trade secrets or, as expressed in the EC proposal, "acts contrary to honest commercial practices," also seriously undermines the effort by the United States to achieve international recognition of this extremely valuable and important form of intellectual property. The Japanese do have trade secret protection available on a contractual basis, but do not, to our knowledge, have any effective protection against third parties who wrongfully acquire or use trade secrets.

There are other aspects of the Japanese proposal with which the United States disagrees, but I will not attempt to detail each

and every one of these at this time. There are, in fact, a far greater number of areas where there is fundamental agreement between the United States and Japan than where there is disagreement, and it would be misleading to over-emphasize the areas of disagreement.

During the first two years of negotiations, Brazil, India, and countries which follow their lead, have attempted to forestall progress in TRIPs by arguing that the negotiators do not have a mandate to engage in negotiations on substantive standards for protection of intellectual property. They argue that such responsibility resides principally in WIPO. While the TRIPs Negotiating Group has made good progress notwithstanding such arguments, we had hoped to obtain a clear mandate in Montreal to guide our work for the remainder of the round.

As you know, we were unable to reach an agreement at the mid-term review in Montreal in December. Notwithstanding near round-the-clock negotiations in a group chaired by Turkish Minister of State for the Economy, Yusuf Ozal, the prospects for agreement evaporated when it became clear that agreement would not be reached on agriculture. When this became clear, the Ministers decided to hold a meeting of the Trade Negotiations Committee, made up of high level officials, during the first week of April of this year. The Director General of the GATT, Arthur Dunkel, was instructed to conduct high-level consultations in the interim on the four items upon which agreement was not reached in Montreal: Agriculture, TRIPs, textiles, and safeguards.

The first interim consultation covering intellectual property was held in Geneva earlier this month. Unlike Montreal where some

moderate developing countries had indicated a greater willingness to participate in the negotiation of an intellectual property agreement in the GATT, the consultation found these countries retreating to a more neutral stance. One notable exception was the Republic of South Korea, which indicated that it was now prepared, on the basis of instructions from its capitol, to negotiate on intellectual property standards and enforcement in the GATT.

At the first consultation, Director General Dunkel made it clear that he has much to learn about the substance of this issue. He is seeking to obtain a consensus for moving ahead on this issue which will undoubtably have to involve some technique for addressing India's reluctance with negotiating substantive standards in the GATT. A second consultation has been scheduled for March 16 and 17. The United States will continue its efforts to educate the Director General on our views on this topic and to seek additional support for launching the negotiations on substantive standards and enforcement. We have already lost several months in the mid-term review process and its follow-up. If we are to obtain a successful conclusion of the TRIPs negotiation in the Uruguay Round, we will need a very concerted effort beginning at the earliest possible date.

U.S./Japan Intellectual Property Working Group

This Subcommittee is well aware of the growing concerns between the United States and Japan over trade-related intellectual property issues. To address these issues and to avoid greater

problems in the future, former Deputy U.S. Trade Representative Michael Smith proposed at the U.S./Japan Trade Committee talks in April of last year that a working group on intellectual property be established. The first meeting of this working group was held this past August.

In preparing for this meeting, we consulted broadly with U.S. industry to obtain a better understanding of the intellectual property problems that U.S. industry faces in Japan. A number of the problems suggested to us were already being addressed in WIPO, GATT, or the Trilateral: providing an adequate scope and breadth of claim interpretation by Japanese courts; the elimination of pre-issue oppositions; the elimination of deferred examination; agreeing to provide an international grace period; permitting the filing of a patent application in the applicant's "mother-tongue"; and, restricting the scope and availability of compulsory patent licenses. We included these items on our agenda with the objective of obtaining the agreement of the Japanese Government to support these proposals in the appropriate forum.

Some of the problems raised by U.S. industry are not being addressed in any forum. These include the delays encountered by U.S. industry in obtaining patents in Japan and the protracted court proceedings which U.S. industry faces in attempting to enforce their patents in Japan.

As the name of the working group implies, issues other than patents were raised. In the copyright field, we raised industry concerns regarding protection of computer software and sound and video recordings. Although computer software continues to be protected

by copyright in Japan, we continue to hear conflicting opinions from Japan about the appropriate scope of protection of software under copyright. Accordingly, we sought to obtain their agreement that computer software should be protected under copyright for a term of the life of the author plus fifty years or fifty years from publication for works made for hire, that reverse engineering should not be permitted, that compulsory licensing, should be prohibted, and that the statutory protection of computer software should strictly maintain the expression/idea dichotomy.

With regard to sound recordings, Japan recently amended its laws to provide protection for a term of 30 years from publication. While Japan was considering the extension of the term to 30 years, we continued to urge that they protect sound recordings for a term of 50 years from publication. We also sought interim protection for currently protected sound recordings so that, as Japan moved to 30 and ultimately to 50 years protection, such recordings would not pass into the public domain.

While Japan has a rental right for sound recordings, the right lasts for only one year and is not available to sound recordings first published outside Japan. Moreover, we are informed by industry sources that this very limited one-year exclusivity is being shortened in Japan by judicial decisions. Accordingly, we strongly urged the Japanese Government to agree to extend the rental right to sound recordings first published outside of Japan, to ensure that such recordings are eligible for at least the full one-year exclusivity provided under the statute, and to begin work toward providing a full 50 year term rental right for sound recordings. Lastly, we obtained

information indicating that sound recordings produced in the United States after 1968, but prior to the adoption of the Japanese law protecting sound recordings in 1978, are beginning to be pirated in Japan. We suggested that the Japanese provide at least the full 20-year protection to sound recordings produced since 1968.

In the area of enforcement, we urged the Japanese to conclude work on legislation pending before the Diet which would make possession of infringing copies of pirated videos for purposes of distribution an offense. That legislation was enacted late last year. We also urged the Japanese to strengthen the penalties and sanctions for copyright infringement to levels more nearly commensurate with those in the United States and to encourage more effective police cooperation and enforcement.

We also had a brief discussion of steps that we might take to avoid problems regarding protection of intellectual property in the future. These discussions covered the possibility of a joint effort to provide advice to U.S. businesses on protecting intellectual property in Japan as well as a joint effort to consider the ramifications of new technology on the protection of intellectual property.

Perhaps to be expected, the Japanese initially responded that the problems raised in the earlier hearing before this Subcommittee were based on misunderstandings. They stated that the working group meeting should serve to dispel these misunderstandings and should be used to further U.S./Japan cooperation in multilateral efforts,

Characterizing the U.S. patent system as "internationally unique," the Japanese also raised their concerns with our intellectual property protection system.

In addition to the United States first-to-invent system, the Japanese also objected to 35 U.S.C 104. This provision precludes applicants for patents in the United States from relying on activity in a foreign country to show that they were the first to make an invention and, therefore, entitled under U.S. law to receive a patent. They believe that measuring the term of a patent from the date of grant rather than from the date of filing leads to excessive protection by delaying the period of exclusivity for several years. The Japanese object to the requirement in U.S. patent law that conditions their right to claim the filing date of their Japanese application as their priority date on their having disclosed the "best mode" contemplated by the inventor for carrying out his or her invention. They also believe that the scope of grounds for objection in the U.S. reexamination system is too limited and that third parties should be able to participate more extensively. In their view, U.S. patentees should not have the possibility of obtaining broadened patents by reexamination or reissue. The Japanese also raised the issue concerning the date from which foreign origin U.S. patent applications are effective for patent-defeating purposes - the Hilmer doctrine referred to earlier. As you can see, all of these issues are under discussion in WIPO, GATT or the trilateral.

The Japanese also complained that unity of invention practice is not evenly applied by U.S. patent examiners and that the U.S.

duty to disclose relevant prior art also lacks a clear standard. The Japanese expressed unhappiness with the U.S. patent classification system because, although a very good reference tool, our constant updating places an onus on them to keep their file of U.S. patents similarly up to date. Finally, the Japanese noted that the U.S. Patent and Trademark Office had been unable to locate a file history of a U.S. patent.

The Japanese also raised copyright issues. They urged the United States to adhere to the Berne Convention and to eliminate the requirement for foreign authors to place copyright notice on their works and to register these works as a precondition for bringing a law suit for infringement. Fortunately, these items have since been favorably resolved by the United States Congress (Pub. L. No. 100-568).

The Japanese also questioned the breadth of copyright protection granted to computer software in a recent United States court decision (Whelan Associates, Inc. v. Jaslow Dental Laboratory, Inc. 797 F.2d 1222 (3d. Cir. 1986)) and the moral rights protection of copyrighted works in the United States. They suggested the United States move toward introduction of neighboring rights for protecting producers of sound recordings, broadcasters, and performers.

Of course, no discussion with Japan would be complete without Japan's raising the ever popular section 337 of the Tariff Act of 1930 and, in this case, its revision in the "Omnibus Trade and Competitiveness Act of 1988."

At this first meeting of the working group, there was not enough time to do more than note the respective areas of concern and offer some initial responses. At the trilateral meeting last November the Japanese Patent Office requested a bilateral meeting with us to further explain their efforts to speed up the processing of patent applications. We agreed on the understanding that the meeting was not a substitute for the working group, but merely a useful opportunity to exchange views. The Japanese appear to be sensitive to the time it takes to obtain a patent, as well they should.

In 1987, the Japanese received approximtely 540,000 patent and utility model applications. In that same year, applicants requested examination of some 250,000 applications, and examination was completed on approximately 200,000 applications. Thus, the backlog of applications awaiting completion of examination grew by 50,000 in 1987 alone. The total number of applications for which examination has been requested but not completed is over 650,000. This translates into an average pendancy of 37 months from request for examination to completion of examination. It should also be taken into account that a similar period, that is 37 months, elapses between filing and request for examination, resulting in an average pendancy in Japan of over six years.

The Japanese have developed a program for combatting these delays in patent issuance which includes a campaign to encourage applicants to be more selective and thus file fewer applications, a campaign to encourage applicants to request search and examination of fewer applications, a plan to contract out to the private sector in

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1989, the search work for 10,000 applications, a request to increase the number of examiners, and the automation of the Japanese search file by indexing their patents (which they refer to as their F-term retrieval system).

While I do not wish to spend a great deal of time discussing all of the steps the Japanese Patent Office is taking to address the backlog, I might contrast the efforts of the United States and Japan. To reduce pendancy to an average of 18 months, the United States Patent and Trademark Office increased its patent examining staff by more than 700 in the past seven years to a total of approximately 1500. For each of the next five years, we will hire an additional 245 examiners. With a much longer average pendancy, the Japanese Patent Office has requested an increase of 30 examiners for the coming year which, if approved, will raise their patent exaining staff to approximately 890. The Japanese Patent Office has stated its intention to seek additional increases in the years ahead.

With respect to their plans to contract out search work and to automate their search files, we have serious doubts as to the results which will be achieved. The Japanese Patent Office plans to contract out "maybe as many as 100,000 applications anually by 1993." Well, of course, "maybe not." Moreover, this approach will have the inefficiency that the examiner will still have to read and understand the application and the search results before he or she can examine the case.

As for time savings from automating their search file with their F-term retrieval system, the Japanese state that they wish to cut

search time for their examiners by 50%. Even assuming that the F-term system works as well and as fast as the U.S. full text search system (an assumption I would not make), we do not see a savings in search time approaching anything near 50%. Examiners are very proficient in using their classified paper search files, and in either case must read and understand the application as well as the the references which are found. To us, the major benefit of automation is improving the quality of the search by never having a missing reference, a phenomena which is inevitable with a paper search file.

The Japanese have reported that their campaigns to reduce filings and requests for search and examination are showing dividends. However, the limited sample size and the impact of a 1987 fee increase make it difficult to draw any conclusions yet. The multiple claim system adopted by the Japanese may also help in reducing the number of applications. The Japanese report that as of the first ten months of 1988, Japanese patent applications had an average of 2.77 claims as contrasted in 1.25 found in a sample of applications filed in 1986 and 1987. Again, it is too early to tell if this is having an effect on the number of applications filed, or just the number of claims per application.

In regard to the problem of delays in obtaining patents in Japan, the Japanese note that the Japanese Patent Office has had a system of preferential or expedited examination in place for two years. Last year, only 325 applicants requested such preferential examination. Of these, 32 were foreign, including 17 by United States companies. We are exploring with U.S. industry to learn why this system is not receiving greater use.

The working group on intellectual property under the trade committee will be meeting next month to continue the discussions. We will likely focus on those areas which are not under active discussion elsewhere, although, I do not rule out efforts to facilitate reaching agreement in multilateral discussions. There are a number of hurdles to be overcome before any significant progress will be realized with respect to seeing improvements in Japanese patent law and practice. It will not be easy nor will it be quick. Furthermore, it will not occur without some changes also taking place in the patent laws and practices of the United States.

In closing, I would like to acknowledge the cooperate attitude Japan has taken in intellectual property discussions in some multilateral fora. At Montreal, and in the consultations earlier this month in Geneva, the Japanese delegation was most helpful and contributed positively to the TRIPs deliberations. We are hopeful that this spirit will continue in our bilateral talks.

Senator ROCKEFELLER. Senator Packwood.

Senator PACKWOOD. I did not have a chance to finish reading your statement before you finished giving your summary. It is my understanding that most countries use the first to file system, is that correct?

Mr. KIRK. That is correct, Senator Packwood.

Senator PACKWOOD. Do any other industrialized countries follow the first to invent system of the United States?

Mr. KIRK. There were two. Canada has since passed a law that will remove it from the first-to-invent system in the near future, and we just received this week a draft of a law from the Philippines which will change its system from first-to-invent to first-to-file. Those are the only other countries besides the United States that have a first-to-invent system.

Senator PACKWOOD. So, if we wanted to go on a harmonized basis, either all of the rest of the world would have to change to our system or we would change. We alone would change to the first to file system.

Mr. KIRK. I think realistically, Senator, that if there is going to be a harmonization treaty negotiated in WIPO, one of the features of that treaty will be a first-to-file requirement. Then the question for U.S. industry, the Bar and inventors will be, with this change, which is resisted by a large number of people in the United States, will we be able to obtain sufficient advantages and benefits for American industry so that, on balance, they believe this is a worthwhile package and worth making the change in the U.S. law.

Senator PACKWOOD. Now, what happens if we do not change and we have a first to invent system, and you get your patent in the United States. All the rest of the world has a first to file system and you take a U.S. patent to one of the first to file countries. Is the fact that the patent is issued here preclusive on a first filing

there or not? In other words, is that a recognized patent right that they have to recognize or do they say no, it was not filed first here and ours takes precedence?

Mr. KIRK. Each patent system is territorial in nature. When one obtains a patent here, therefore, that has no effect outside the boundaries of the United States. There is an international convention in existence, the Paris Convention, for the Protection of Industrial Property which includes a provision that allows an inventor, once he files a patent application in any country, to subsequently file applications in other countries within one year of that first filing and obtain the benefit of that first filing date.

So, the mere fact that someone has filed the application in the United States under a first-to-invent system, would have no effect on his obtaining a patent in a subsequent country having a first-to-file system, provided he uses the so-called priority period of the Paris Convention.

Senator PACKWOOD. This is the grace period?

Mr. KIRK. No, sir. This is somewhat similar to the grace period, but it is different in scope. The grace period protects an inventor against loss of his rights through early disclosure of his invention.

Supposing I give a speech before a technical society, for example. In the United States, we have a 12-month grace period, and I would not be precluded from obtaining a patent, provided I filed within that 12-month period in the United States.

However, I cannot, for example, go to Japan, file in Japan and obtain a patent after I have disclosed my invention here in the United States and allowed, let us say, 8 months pass because they do not have the same type of grace period that we have. So, grace period is one thing. The priority period protects after the first filing in the United States.

Once I file in the United States, then I can give a speech. It will have no impact on my ability to obtain rights in a subsequent country, provided I perfect a filing in that subsequent country within the 12-month period.

Senator PACKWOOD. Within the 12 months of filing in the United States?

Mr. KIRK. That is correct.

Senator PACKWOOD. Now, let me make sure I understand. Somebody at the American Civil Engineering Conference announces a new idea, and he or she says—and this is January—it is my plan to file for a patent. And in June they file for a patent. But in the meantime, if someone has filed in Japan in March and our patent processor filing here in June then takes that patent to Japan, Japan would not recognize that patent as a prior right because it would have been a filing in Japan in March?

Mr. KIRK. That is correct. The Japanese filing date would be prior to the United States filing date and, therefore, the Japanese filing date would entitle the person who filed in Japan to obtain the patent.

There is one catch here, however, and that is the fact that it was disclosed in the United States which may or may not, depending upon the circumstances, bar the applicant in Japan because there would have been a disclosure prior to the filing in Japan. Their

grace period is very limited both in scope and in time, so the result may be that nobody would get a patent in Japan.

Senator PACKWOOD. Run this by me again. Japan does have a grace period. Let us say you are a Japanese inventor and you announce in January, but you have not yet filed your patent. You still have some period time, as in the United States to file, and you will have a prior right?

Mr. KIRK. You have a 6-month grace period in Japan to file and obtain a patent without loss of your rights due to an earlier disclosure.

However, the types of disclosure that qualify under the Japanese grace period are limited. They are not as broad as those in the United States. So, depending upon the type of disclosure, you may or may not be able to obtain a patent in Japan.

In the United States, any type of disclosure by the inventor will not preclude him from getting a patent for a full 12 months from the date of that disclosure.

Senator PACKWOOD. But in any event, the present Japanese patent system is more akin to the rest of the world and the United States is more or less sui generis in the way we look at it?

Mr. KIRK. This is correct, if you look at the issue of first-to-file versus first-to-invent.

The issue that we were just discussing, grace period, is one of the topics that is in the WIPO harmonization treaty, and there I think the rest of the world is recognizing that the grace period of the United States is indeed a worthwhile proposal and they are moving toward us.

Senator PACKWOOD. Now, the last question. Disregarding any changes the WIPO may make, how does the Japanese patent system as a whole in terms of protection of our intellectual property rights stack up against the patent systems in other countries where we have been having lots of complaints, such as India, Thailand, Indonesia, Singapore, Taiwan, Brazil and Latin America generally?

Mr. KIRK. It is a difference in magnitude that I think you addressed earlier, Senator. The countries that you are listing do not have adequate standards and adequate terms of protection, or adequate coverage. They have extremely broad compulsory licenses; sometimes they just exclude subject matter, like in Brazil, where pharmaceutical products and processes and the like are excluded. Those systems are clearly inadequate, and those systems are the target both of bilateral consultations, being led by USTR, in which we participate, as well as being the subject of some of our efforts in the GATT and in WIPO to raise the level of protection to an acceptable level.

Senator PACKWOOD. So that just on average, an American patent holder is more likely to get protection in Japan, assuming proper filing, than in some of these other countries?

Mr. KIRK. Yes, Senator. In those countries you named.

Senator PACKWOOD. Thank you very much, Mr. Chairman.

Senator ROCKEFELLER. Thank you, Senator Packwood. Mike, I received a letter from Commissioner Yoshida of the Japanese Patent Office, and he indicated that in our last hearing we discussed the fact that one of the problems with the Japanese Patent Office is

that it is understaffed. It is staffed by very fine people, but nevertheless, it is understaffed. The volume reaches into the hundreds of thousands, because of some of the various procedures in the patent process in Japan.

He wrote to say that they were going to increase their personnel by 40. In our Patent Office, over the past 7 years, we have added 100's of examiners and, over the next 5 years, we will hire 245 more each year.

I understand that our backlog is considerably less than the Japanese backlog, and I am trying to get a sense from you if this is an effort to paper over the issue or whether it represents genuine improvement.

Mr. KIRK. Well, Mr. Chairman, I will not try to address Commissioner Yoshida's motives either. But this effort, in our view, is clearly inadequate.

I think the contrast that you point out is very relevant. We are planning to hire an additional 245 examiners for each of the next 5 years. Contrast this to the approximately 40 or 45 people that the Japanese Patent Office is hiring, not all of whom are examiners. Some of those will go to other functions. So that for the examining staff, it is my understanding that this will mean an increase of 30.

I think we might look at the total numbers to get a better picture. Currently in the United States, it takes an average of 19 months to obtain a patent, from filing to issue. This is possible because we have increased our staff from slightly over 800 back in 1981 to 1,500 today, and we brought our pendency down from about 27 months to 19 months.

Currently, in Japan, they have approximately 850 examiners. They said, as you indicated, they receive about 550,000 patent and utility model applications each year. Their staff is not adequate to handle that work load. The backlog is growing. They currently have in their office in excess of 2.5 million pending applications which could mature into patents, but because of their deferred examination system not all of them are in the process of being examined.

Senator ROCKEFELLER. Are they computerized?

Mr. KIRK. They are in the process of computerizing, adding what they refer to as their F-Term Search System, which is a search system of key words, if you will, so that they can tap key words and index the patent documents.

This was something that was tried internationally about 15 years ago but discarded. I think the Japanese are returning to this because of language difficulties, and the difficulties of full text search in the Japanese language. But they are attempting to automate their office.

In our view, however, automation is not the solution to the backlog, because automation will only help you find a document. It will tend to ensure that you will not miss a document because it is misfiled or misplaced, or is on somebody else's desk.

But in terms of speeding up the process, it is still going to require an examiner to read the application and understand it, to read the references he finds and understand them, to apply those references to the application, and to produce an opinion so that the applicant can then narrow the claims and obtain a patent. Auto-

mation is not going to speed that process appreciably, in our opinion.

Senator ROCKEFELLER. The average pendency in Japan is about 6 years, is it not?

Mr. KIRK. Yes, sir.

Senator ROCKEFELLER. As opposed to 18 or 19 months here.

Is not part of the problem, particularly for high technology firms, that technology changes so quickly that, in effect, 6 years is very fleeting and technology is quickly outdated, thus, making the patent that you had applied for originally no longer as meaningful?

The Japanese are strategic planners. Their system is one where cordination has become a state of art. Their coordination is such that I believe I am correct in saying that since the end of the Second World War there has only been one budget item—from the Ministry of Finance budget that comes to their Diet, their Congress—only one budget item in one case since the Second World War when it was changed by the Diet.

The Japanese, on the one hand, are being tremendously helpful to the United States, as you indicated in terms of worldwide intellectual property protection—very, very helpful on that—and then, at the level we are discussing today—which the Commissioner of the Japanese Patent Office implied that an increase of 40 in personnel was a steep increase, a dramatic effort.

Why are they not making more dramatic efforts to bring down their pendency, in your view? Do you think this is what they feel is appropriate in their more incremental society?

Mr. KIRK. Senator Rockefeller I really could not speculate on why they are not treating the problem more aggressively. We are informed that some Japanese companies, particularly in the chemical field, would like to see changes in their system to strengthen and improve the operation of the Japanese patent system. They suffer the same delays that our applicants suffer.

In our conversations with Commissioner Yoshida and others, they simply say that there is a law that controls the total number of employees that MITI and other agencies can have, and that puts a limit on how many people they can bring into the Japanese Patent Office.

We have seen no difficulties with the Japanese Patent Office when they wanted to increase their fees twice in the last 5 years to build a brand-new building, to automate their entire operation and to pay for all of this in very short order with those higher fees, which they are charging both Japanese and foreign applicants. So I think from our perspective, it is a matter of political will.

So rather than try to understand or to debate the whys on this, we simply are trying to discuss with them what we perceive to be solutions that would fix the problem. As far as we are concerned, fixing the problem begins with obtaining an adequate staff. In their case, probably doubling the number of patent examiners.

Senator ROCKEFELLER. Which is a budgetary matter and, therefore, something that probably ought to be addressed to the Ministry of Finance, right—since they are Treasury, OMB and everything else wrapped up into one?

Mr. KIRK. It would seem that this is something that could be done, something that could be raised to the Diet if in fact they are

serious about eliminating what I think is a growing friction between Japan and the United States.

We are making proposals in WIPO in the harmonization of laws activity that will also address the problem. Two proposals are that every application that is filed in any country must receive a search and examination within specified time frames to eliminate the so-called deferred examination system, to get rid of that totally. That is one proposal that we are making that we will be discussing in Geneva in April.

The other proposal is to eliminate opposition proceedings that occur before the patent is granted. If these two changes were made in their laws and adequate staffing were obtained, we think there could be some very significant improvements in the ability of United States citizens, industry and inventors to obtain patents in Japan.

Senator ROCKEFELLER. When you talk about 500,000 patents applications, does that include all of the opposition patents, the flooding, the appeals through the three levels of courts, including the Tokyo Supreme Court, Japan's Supreme Court? Is each one of these cases a separate part of that 500,000 figure you referred to, or are these original filings?

Mr. KIRK. These are the original filings. There are 550,000 applications filed each year in the Japanese Patent Office, and the subsequent processing of that, with oppositions, appeals, et cetera.

Senator ROCKEFELLER. Then the number grows to 2.5 million?

Mr. KIRK. Well, the 2.5 million is the total number. If, for example, you file 550,000 applications in the Japanese Patent Office today, you have 7 years in which to request that these applications be examined. They will sit there for 7 years as possible pitfalls for an industry doing business in Japan. It is that number. It is the number of filings over a 7-year period that have not been examined or withdrawn that adds up to 2.5 million.

Senator ROCKEFELLER. I understand. Let me intervene with another question. I am wont to say sometimes, and I may be totally wrong, that the Japanese have a variety of ways in which they can force cross-licensing.

In other words, that will give you a patent in exchange for your technology. Or, as Jim Abegglin would say, over the last 30 years, $10 billion bought 30,000 individual private agreements with companies around the world and the Japanese, thus, have virtually purchased virtually all the technology worth having around the world. This is not a negative comment toward Japan. Rather, it is sort of interesting about us and others.

Do you think that this is the hand of MITI? You say 40 is not very much of an increase, and I agree with you.

Do you think that it is strategic on their part, or do you think that it is simply the way their system is working and that they are just responding slowly to pressure as it is brought by you and by others around the world, or even by their own small companies?

Do you think there is a purpose to this that ends up in forcing cross-licensing, or is that simply an inadvertent consequence of policy?

Mr. KIRK. It is certainly a consequence of the way their system operates today. I do not believe that I could say that it is or is not

part of a grand strategy on the part of the government. But it is in fact a reality that our companies face.

Senator ROCKEFELLER. Could you explain a little bit more about this foreign language patent application matter? It is my understanding that our Patent Office permits applications in foreign languages, as long as an English translation follows. You get a Japanese one or a German one, and as long as an English translation follows, it is okay.

But I understand that it is not permitted in Japan. That is not considered acceptable, although there are exceptions, and whether those exceptions are meaningful or not is part of my question.

Also, there are tremendous difficulties in producing translations. When Japanese patent officers look at, let us say, a Japanese translation from English, and there is an error, that error is then sent back to the company and the company corrects that error. It comes back, and the Japanese Patent Office finds another error, and then sends it back again, and it becomes a very drawnout, annoying process.

It seems perfectly reasonable to me that allowing an English translation to accompany a patent application would be good. What do the Japanese say to that when you put it to them?

Mr. KIRK. Well, I will address both parts of your question. You initially asked about the practice the Japanese currently have where an applicant is permitted to include in brackets an English-language term when there is some concern on the part of the applicant that that term may not receive a proper translation.

That is a practice they follow, and of course it would work extremely well if you had 100 percent foresight as to exactly where the problems were. But we are not in that situation; there are other translation problems that arise so that this program they have is not adequate to the task.

In terms of the Japanese reaction to our proposal, they have simply said that this is something that is under consideration in WIPO, which in fact it is, because we have made it a matter for consideration there, and it is our view basically that they want to be paid for it.

We have told the Japanese that we want to be paid for moving from a first-to-invent to a first-to-file system, and they are trying to put something on their side of the ledger. I think, from the standpoint of rationality, it makes no sense to oppose.

Senator ROCKEFELLER. Senator Packwood brought up something at the beginning of this hearing, as he has before, that if the United States were to drop our first-to-invent system, which only we and the Philippines have, and that may very well happen, it occurs to me though that that would not necessarily make any difference in terms of the Japan Patent Office and the various problems that our companies are having there.

It seems to me that it would then become interesting whether other countries who might have problems with us, find their problems either solved more easily or become more difficult. In other words, even if we go to the world system, which we probably will, the problems with the Japanese Patent Office, at least as you see them, will still be there, won't they?

Mr. KIRK. Well, I think this is a matter that we would hope, if we are effective negotiators, will not come to pass. As part of our willingness to suggest to the Congress and to American industry that we move from a first-to-invent to a first-to-file system, we are going to request of others, and specifically of Japan, that it agree to a number of proposals that will make the system better, not only for American inventors, but for inventors from all countries outside of Japan.

These include, as I mentioned, eliminating the deferred examination system that Japan currently has—Japan, West Germany and The Netherlands are the only countries that come to mind quickly that have it—and eliminating pre-grant oppositions, oppositions before you get your patent which can delay the process interminably.

Another proposal would require the Japanese to give a broader scope of protection to a patent once it is granted, to eliminate their ability to narrow a patent to avoid what was clearly an infringing device. So there are a number of things of this nature. If we agree to move, we are going to demand that others move with us.

Then coupled with this, the one thing that is not being addressed in WIPO, which we are addressing bilaterally, is the staffing issue, and this is one which in our view the Japanese simply have to move on.

Senator ROCKEFELLER. Thank you, Mr. Kirk. Senator Packwood, I have a couple of more questions, but you interrupt or add whatever you want.

Senator PACKWOOD. I have no more questions, but I wanted to say it is a pleasure to have a witness like Mr. Kirk who knows the subject as well as he does, and considering how technical a subject this is you speak very good lay English that is understandable and I appreciate it.

Mr. KIRK. Thank you, sir.

Senator ROCKEFELLER. One criticism that has been made of Japan is that the patent applications are published 18 months following the date of filing, while we maintain the application as a secret until the patent is issued. That is pretty fundamental. Some have said that we are one of the few countries that do this, and in fact the Canadians have just stopped doing this. Should we?

Mr. KIRK. In my view, yes, we should. Because I believe the 18 month publication that other countries have gives them an advantage over us because it gives them a disclosure in their language 18 months from the first filing date. This means, for example, that if you file in the United States and 12 months later file in Japan, the publication occurs in Japan 6 months after you file there, giving them a very early disclosure of your technology.

This occurs in virtually every country in the world. Eighteen months from the earliest filing date there is a publication. Now we are trying to issue patents 18 months from the date that they are filed, on average, in the United States, and this of course tends to offset that. But we still suffer a lag time of several months in getting the technology translated and published in the English language for the benefit of our industry. It is my view, therefore, that yes, this is something that we should move toward.

Senator ROCKEFELLER. The United States-Japan Working Group on Intellectual Property was held in August and then there was meant to be another meeting, but it was postponed. It is coming up, as I understand, next month.

When these Senate hearings are held, I do not do it because of an endless love or fascination for either our patent laws, or for the Japanese patent process, but it is done because of the trade consequences, and I consider this to be a important trade issue.

In your discussions and your working groups, do you find that the Japanese look at it as a matter of trade consequence or simply as a matter of patent procedure?

Mr. KIRK. I think it has been our experience that they would love to look at it as a matter of patent procedure and not a matter of trade. I think, however, that they recognize it as a matter of trade.

Senator ROCKEFELLER. Another question: I have been told that foreign companies not resident in Japan must file their patent applications through Japanese patent attorneys, while Japanese companies do not have such a requirement. The result, apparently, is that foreigners end up paying more to file patents. The first question would be, is this the case, and if it is, is that on your agenda?

I have also been told that the Japanese Patent Attorneys Association has published a list of minimum fees for its services, and that fees for foreign clients are higher than for Japanese clients. Is that the case, and is there any huge consequence of that, or am I simply trying to make a tempest out of a teapot?

Mr. KIRK. Well, let me say first of all that the area of practice before the respective offices is not currently on our agenda. That is not something in our consultations with U.S. industry that has been brought to our attention as a matter of burning concern.

Obtaining a patent in a country is such a highly complex, arcane legal procedure that I think our industry—at least to date it has been our information—is perfectly comfortable with hiring qualified attorneys in Japan to obtain patent protection there, the same as the Japanese hire qualified attorneys in the United States to obtain patent protection in the United States. So this has not been a matter that has been brought to our attention.

Further, right now we have reciprocal attorney arrangements only with Canada, not with any other country. I believe you mentioned in your Wheeling-Nisshin Distinguished Lecturer address at West Virginia University last year——

Senator ROCKEFELLER. I am impressed, Mike.

Mr. KIRK. You spoke about the matter of education and the matter of teaching our students in foreign languages and mentioned the number of students studying Japanese at West Virginia University.

Over the past years, a reasonably good estimate is that more than 1,000 patent practitioners, engineers—people who know something about patent practice—have come from Japan to the United States to study our system, learned it very carefully, very well, and of course they speak excellent English.

Looking the other way, we might have 10 totally, if that. I would be surprised if we had 10. So the idea of a reciprocal arrangement

of this nature would, I think, be shooooting ourselves in the foot, quite honestly.

With respect to the matter of fees, there are some benefits that Japanese firms get from members of the JPA in terms of reduced fees. However, some United States practitioners have suggested that this has more to do with the failure of our firms to negotiate in their own interest than it does with any outright discriminatory practice.

Senator ROCKEFELLER. Two more questions, and then we will move on. My apologies to my colleague for the length of this. It was a long struggle, I understand, and one which I missed, but finally the American lawyers were allowed to practice in Japan and that was what, done several years ago?

Mr. KIRK. I believe there was an agreement that was negotiated under the trade delegation led by Ambassador Mike Smith at the time.

Senator ROCKEFELLER. It is recent, is it not?

Mr. KIRK. The last 2 or 3 years, and I believe—if I am not mistaken, because I was not a part of that—but if I am not mistaken it had to do with authorizing United States lawyers to practice in Japan with respect to advising of United States law, not with respect to actually practicing Japanese law.

Senator ROCKEFELLER. Well now that, then, becomes part of my question, because my understanding is when that coverage was given there were also limitations put on them, and part of the limitation was that American lawyers could not engage in patent law in Japan. One, I assume that that is true, and secondly, is that a matter of discussion?

Mr. KIRK. No, Senator. That is not a matter for discussion at this time. As I say, this has not been a concern that anyone, in industry or in lawfirms, who would be employing or using these attorneys, has called have raised to our attention.

Senator ROCKEFELLER. In other words, they would probably rather use a Japanese lawyer in the first place?

Mr. KIRK. That would be my impression, yes, sir.

Senator ROCKEFELLER. A final question. A lot is being made of the Japanese Patent System. I assume that there are a lot of things they find at fault with ours, and I would ask you to comment on where you think they might, or other countries might, find fault with ours.

Secondly, to the extent that you were in a position to advise the Japanese on how they could issue patents better, and more efficiently, what would be your priority suggestions? You obviously have already given some thought to this.

Mr. KIRK. In terms of what the Japanese and other nations criticize the U.S. patent law and practice about, I think top of the list is our first-to-invent system which they regard as extremely cumbersome, expensive, time-consuming and unfair, because there is a provision in the U.S. law that precludes proving acts of earlier invention that occur outside the United States, and for some reason those who live outside the United States find this not to be to their advantage.

They also dislike our disclosure requirements, where we have imposed through judicial decision a requirement that their original

disclosures must comply with certain aspects of U.S. law in order for them to get the full benefits of some of the international agreements. And so they have various areas where they have criticized our law.

If I were advising the Japanese, I would advise them to focus on these and to say that we want these changed. In return for that, I would offer to eliminate all of the problems that our companies are facing there with translation problems; with scope of right problems; with delays in getting an application through the office; with their court procedures which tend to be protracted and very drawn-out; and with of the absence of any effective means to uncover and learn about infringing acts so that you can successfully prosecute a lawsuit.

There are a lot of things that I would dangle in front of us to get those changes, if I were the Japanese.

Senator ROCKEFELLER. Mike, thank you very much. I have other questions, and I will submit those to you in writing.

[The following information was subsequently received for the record:]

U.S. DEPARTMENT OF COMMERCE,
PATENT AND TRADEMARK OFFICE,
ASSISTANT SECRETARY AND COMMISSIONER OF PATENTS AND TRADEMARKS,
Washington, DC, March 9, 1989.

Hon. JOHN D. ROCKEFELLER IV,
Chairman, Subcommittee on Foreign Commerce and Tourism, Committee on Commerce, Science, and Transportation, U.S. Senate, Washington, DC.

DEAR MR. CHAIRMAN: Thank you again for the opportunity to appear before the Subcommittee on Foreign Commerce and Tourism to explain the steps which the U.S. Government is taking to improve intellectual property protection in Japan.

Subsequent to the hearing, you sent the following written question:

In 1987, the United States and Japan agreed to protect the U.S. Government's rights to technology developed by Japanese participants with U.S. funded contracts under the Strategic Defense Initiative Program. Has the Japanese government fully implemented the secrecy requirement under the Patent Secrecy Agreement for classified patent applications filed in Japan?

The Mutual Defense Assistance Office at the U.S. Embassy in Tokyo, which monitors Japanese compliance, reports that the Japanese have satisfactorily implemented the secrecy requirement under the Patent Secrecy Agreement. Currently there are 47 cases being handled under the Agreement. We will follow up regularly to ensure that the obligations of the Agreement continue to be fulfilled.

If I can provide further information, please let me know.

Sincerely,

MICHAEL K. KIRK,
Assistant Commissioner for External Affairs.

Senator ROCKEFELLER. Now, our final panel—well, this will be our first panel actually. Mike did not qualify as a panel. He was a person. So our first panel will be Mr. A.E. Hirsch of the Pacific Industrial Property Association and Mr. Alan Lourie, SmithKline Beckman Corp. We thank you gentlemen for being here, and Mr. Hirsch, perhaps you would lead off.

STATEMENT OF A.E. HIRSCH, JR., PACIFIC INDUSTRIAL PROPERTY ASSOCIATION

Mr. HIRSCH. Thank you, senator. I am Alfred Hirsch. I am assistant general counsel, intellectual property, Division of AT&T Bell Laboratories, and I head up the organization that handles our filing of patent applications both in the United States and in foreign countries, including Japan. I am here, however, as the presi-

dent of the American Group of PIPA. I say PIPA. Others have pronounced it in other ways. They are all acceptable.

First of all, I would like to outline what PIPA is, and how it came to be. It was about 20 years ago that a number of American attorneys were in Japan for a convention, and they were discussing the difficulties that they had in prosecuting patents in Japan and what they could do about it. A number of Japanese joined the conversation and said they had difficulties in prosecuting patent applications in the United States.

The result of this was the formation of a legal society, PIPA—Pacific Industrial Property Association—which is designed to educate one another about our respective systems. We have been doing this successfully for 20 years. We have learned a great deal about the Japanese system, and I think we have taught them a great deal about the United States system.

Now, we meet here in the United States, our American group, frequently and pose questions to them. They do the same thing in Japan. Annually we have a meeting, a joint meeting between the Japanese group and the American group. We call this a Congress, and it alternates between the United States and Japan.

At those 3-day conferences we have a series of papers which we publish for our membership. This is a corporate society. Corporations are members who employ their own in-house patent counsel. There are about 70 or 80 United States corporations that are members, and upwards of 100 Japanese corporations that employ inside-house patent counsel.

Our meetings are well attended. We have upwards of 100 members each year, including the Commissioners of Patents of both Japan and the United States, and we discuss openly some of our issues and raise the sorts of questions you were discussing with Mike Kirk a few moments ago.

In 1984, after we had posed a series of questions to the Japanese about their practice, the Commissioner of Director General, in those days, of the Japanese Patent Office invited a group of American attorneys representing major corporations, mostly PIPA, to come to the patent office to learn their system.

You spoke with Mike Kirk earlier and in the last testimony with Professor Caton about the learning process. They seem to send their students over here, their attorneys, to learn our system, and we have done very little—well, we have done something. We spent a week—24 American attorneys representing major corporations—in the Japanese Patent Office learning their system.

They published a book in English for us outlining the process, and I believe that our members learned a great deal and we have benefited from that. Now they are trying to be cooperative.

We, at that meeting in 1984—which at the time Carl Jorda was the President of PIPA—went in on Monday morning to the Patent Office conference room and the Commissioner, or the Deputy Commissioners, and all of the senior staff were there and it was a very uncomfortable morning.

They told us that they assumed we were there to complain about the Japanese system, and we told them no, we came to learn about the Japanese system, and by the end of the week we had a very good relationship, so good that we have been invited back on four

successive meetings. We had one last October with Commissioner Yoshida in the office.

Each time we have presented concerns to them. Now, in that first meeting we presented at least five, and one was the type of rejection that we get by the Japanese examiner in our applications. It is terse. It does not mean much to us, and it required a paper flow back and forth to understand really what they were trying to get from us.

We told them about the practice that we have here in the United States of interviews with the examiners. This was not done in Japan. In the United States we can go in and talk, under the right rules, with an examiner about our application.

The result of this was, a few years later, that the Japanese office started having interviews, and most of the companies, certainly my company, interviews almost every case we prosecute in Japan to find out what the examiner really has on his mind.

This has been a definite improvement, and we applaud the Japanese for opening their office to this kind of interviews. We do it through our agent or our own attorneys in Japan and I have gone in on my own—well, with my attorney—into those interviews, and they have been very helpful.

We also complained that the period for filing an opposition, which is the pre-grant opposition, which we do not particularly like but nonetheless we had two months, and to get translations and the mail delays that was a little short. Well, they increased that for us, just for foreigners, by another 30 days. We think this is not enough and we still do not—we prefer not to have the pre-grant opposition and you heard about that already.

We suggested that the claiming practice was much too restrictive. Japanese patents, as you have heard, which adds to the flooding issue, file very short applications claiming one simple improvement on another. They file many of them that surround their whole invention.

In this country it is our practice, under our law, to file a more complete disclosure of the entire inventive concept and then claim in a multiple claim system the different facets, the different features, the genus, the species, whatever it might be, all in one application. And most American companies take that application to Japan.

Senator ROCKEFELLER. Could I interrupt, Mr. Hirsch? The Philippines and the United States might be the last two to practice this archaic procedure, but there is a logic to it, is there not? I mean, if you were the person that made the invention, you should be the person who files. I know I am whistling down a dark tunnel on this, but what is so arcane about that?

Mr. HIRSCH. Well, I do not think there is anything arcane about it. I think that the patent should be filed by an inventor. The difference is not whether it was the first one to invent or the first one to file, but the theory is that it is only the inventor that can file on a patent application, not just someone that reads about it.

Senator PACKWOOD. But I do not think that was your question.

Mr. HIRSCH. I am sorry. Then I missed the point of the question.

Senator ROCKEFELLER. Well, in Japan if I invent something and you hear about it you can file it. Correct?

Mr. HIRSCH. If you are also an inventor of that technology, and there must be an improvement on it.

Senator ROCKEFELLER. I know that is the American system. In the Japanese system, are you saying the same thing? There has to be a demonstrable improvement?

Mr. HIRSCH. That is what they tell us. That is what their law says. Now whether in practice that actually happens and the examiners insist upon that, that is another question. Our experience has been that by and large there must be some demonstrable improvement in the disclosed invention before it will mature into a patent.

Now that does not prevent them from filing, but as you heard from Mike Kirk earlier, of the many patents that are filed, applications that are filed every year, only a very few finally issue as patents.

Senator ROCKEFELLER. What they do not get is protection. What they do get is royalties.

Mr. HIRSCH. I think that is a fair statement, yes.

Senator ROCKEFELLER. Now, why is it arcane, or why am I 200 years out of date to think that protection for somebody who, in fact, has invented something, is a bad idea?

Mr. HIRSCH. I do not think that is arcane at all.

Senator ROCKEFELLER. Then why would we be leaving it? I mean, here we are, the Philippines and the United States, the last bastion of fourth world thinking.

Mr. HIRSCH. Well, our company and the members of PIPA certainly support the first-to-invent system, and we always have. But I think the reality of it is, as was explained to you by Mike Kirk earlier, we are the odd man out on this, and in fact, many corporations in this country who file abroad are on a first-to-file system anyway.

Senator PACKWOOD. Abroad, or here?

Mr. HIRSCH. Here. Anywhere in the world, and the reason for that as you heard from Mike Kirk, that there is this so-called divulgation. There is no grace period over there. Therefore, any publication prior to the time of filing will be defeatist. It will defeat your patent in those countries. The grace period only applies here in the United States. Therefore, if we intend to file our applications abroad, we must file our application in the United States before any divulgation of our invention. Then we have that 1 year Paris period in which to get to the other country. But in effect, since we are going to file abroad we have to guard against premature divulgation of our inventions. But we certainly support the first-to-invent system but realistically I think we are the last one.

Senator ROCKEFELLER. What is divulgation?

Mr. HIRSCH. Divulgation—I am sorry, Senator—that is a word of art that is used primarily in foreign countries, meaning a disclosure of the invention prior to the time that you file your patent application.

Mike Kirk suggested to you that in answer to Senator Packwood's question that we have a grace period in the United States and a limited grace period in some other countries, wherein you can make publication and still file a patent application after that publication or disclosure.

The sum total of disclosures, whether oral or written, is sometimes called a divulgation of the invention to the public.

Senator ROCKEFELLER. Please continue.

Mr. HIRSCH. The claiming problem, as I was suggesting, gave problems to us in the United States because of our multiple claims in an application, and when we went to Japan we were restricted to just one, or a very limited number. Just one major claim.

Since our discussions with the Japanese on that, they have now changed to a multiple claiming system which benefits the United States and will benefit the Japanese if they will begin to use it, because that will cut down on that flood of patents because they will be able to combine a number of inventive features into one application, and thereby claim it in one application. It should cut down the backlog.

We discussed another thing at our very last meeting in October, and that is the opposition procedure, and it is one that is still before us and we will bring up again in our next meeting.

Most oppositions in Japan, certainly against American companies, result in several companies joining in—several opposers joining. There can be as many as 10 or 12 opposers on a single patent application.

If the examiner, we found out, wishes to sustain the opposition and deny the patent, he writes an opinion saying no. On the other hand, if he wishes to uphold the patent and grant the patent, he must write a separate opinion for each of the opposers.

We suggested to Commissioner Yoshida that it sounded like it would be a little easier for an examiner to write one opinion denying the patent than to write 10 opinions upholding the patent. Their answer was, oh no, an examiner would not do that. But we are going to press on this, because we think this is a serious issue in Japan and we want to talk some more about that.

Another issue that we brought up was the chemical practice whereby the scope of the patent as claimed is restricted to the examples that are presented in the specification.

They do not have the doctrine of equivalents that we have in this country—at least not the same one—such that if you do not provide a complete example you may not be able to get coverage of that. This is still an issue that we are pressing, and the pharmaceutical people I am sure are very, very much concerned about this.

Finally, I would in these rather brief and introductory remarks, comment about some of the constraints that were identified in the amendment to H.R. 4782, and you have touched on a number of them already this morning.

The serious understaffing of the patent office is by far, as you heard earlier and at the last hearing, the most serious problem. I discussed this with Commissioner Yoshida at our meeting in October in Toba last year and with some of the others, and they said that they were very proud of the fact that they were able to add 30 examiners in 1988 and had an authorization for another 30 to 45 in 1989.

The reason that they gave for not going for more was that the Government has an order to reduce administrative staffs by as

much as 5 percent, so they are going in the face of this reduction of staff.

Senator ROCKEFELLER. Do you mean as part of their overall deficit reduction problem?

Mr. HIRSCH. I do not know what the exact reason is, but I assume that has something to do with it, but they are attempting to reduce the size of all administrative staffs, and therefore the patent office is going against the tide.

Senator ROCKEFELLER. Now that is interesting, because I think that bears some follow up on our part. I mean, they do have deficit problems and I want to pursue that—not with you.

Mr. HIRSCH. I think that is something to talk about. We told the members of the office that adding 30 or even 60 examiners was just not enough. I think Professor Caton said that this pendency, which is in large measure due to the dearth of examiners, was a disgrace and I think we certainly agree with that. It is out of line. Six to seven years, as you correctly pointed out earlier, leaves you in a period of inability to utilize your technology without having to go to great extremes to license in a fashion that you might not want to do.

The other issue was the matter of translation, that is filing in Japanese. Really, this is something that the rest of the world requires. National offices traditionally require the application to be filed in the national language.

The European office changed that a few years ago by permiting filing in English, German or French, and very properly I think the United States now allows filing in another language provided that the translation follows.

The Japanese answer, as you have heard, was we will allow you to put in brackets the correct English word. This does not help us very much, because we have to guess which words are going to be troublesome to put into Kanji. The translator may or may not guess correctly, and correction of that error is very difficult in Japan.

It is not—it can go further than just making a change in the word. It can change the gist of the invention, as they phrase it, which can throw you out completely. This is not the proper answer.

Their further answer was, you have got the Paris Convention, which gives you a whole year to get that translation ready. Well, that is true, but on the other hand in the reality of the world, changing our mind at the last few months that we do want to file in Japan does not give us a great deal of time.

I cannot think of a reason why this would not be something that they could adopt properly and allow an applicant to rely on a verified copy of the priority document, which is certainly there to correct those changes. I just do not understand that part of their practice.

Senator ROCKEFELLER. Another interruption, Mr. Hirsch. Do I overstate it when I use my error-by-error example? In other words, they discover an error, send it back for correction, it is returned and they then proceed to the next sentence or the next paragraph and find another? Did I over-dramatize that, or does that, in fact, occur?

Mr. HIRSCH. I think it does in fact happen, Senator, although by our interview practice that we have instituted we avoid a great many of those. I do not think it is the same problem that it was. If we go into the office through our agent in Tokyo and discuss the—why did you make this correction, or what words would you like, I think we can do it all at once and I think we have had great improvement in that regard through the interview practice.

Senator ROCKEFELLER. So that is something which we could do better, if we made a greater effort?

Mr. HIRSCH. I think that is correct, Senator. Yes.

Senator ROCKEFELLER. What percentage of our submitted patent applications and the folks behind them, do you think would follow that practice?

Mr. HIRSCH. Well, I would suggest most of the members of PIPA who have learned about this through our meetings and publications probably do that. I think the major companies are doing it, and I think more American companies who do not know about it should do that. It is a breakthrough in their patent office practice which I applaud and I think we agree has been a good step.

The publication, the 18-month publication problem is not one that I think I want to comment on further. You have heard from Mike Kirk that that is more or less the standard around the world.

We prefer the American system whereby the contract between an inventor and the Government to publish whereby the inventor says I will publish my invention, the disclosure of my invention if you give me some substantive rights in the form of a patent is a better way to go rather than forcing the inventor to publish whether or not eventually the patent will issue.

But it is something that we learned to live with over the years, at least those who file in foreign countries, and Japan is no different than the rest of the world on that issue with their publications.

Senator ROCKEFELLER. Another intervention. Why? Just because we have learned to live with it in Japan and Germany or wherever else it is done, why is that something that we should be willing to live with, if, in fact, you do not get intellectual property protection?

Mr. HIRSCH. Well, I think that is exactly right, you do not. But as Mike Kirk suggested earlier, it does put us at a slight disadvantage of not seeing what kind of inventions they are filing in the United States, foreigners that is, from other countries until the patent issues in the United States. But you are quite correct. As the pendency time is reduced in the United States, which it is down to 18 or 19 months, the advantage that we might have from the first publication is wiped out.

Senator ROCKEFELLER. You are saying, in effect, that if you accept the pendency of 6 to 7 years in Japan, in terms of high tech's fast turnover, you are simply cutting your throat. If you accept that system, not desiring it but, say, becoming accustomed to it, there you are. That works for some patents, perhaps, but for the rapid developments in high technology, that simply is fatal, is it not?

Mr. HIRSCH. It can be fatal. It is not always fatal because at least there is the opportunity to license which many companies do.

Now, another one of the issues, if I may answer that in sort of a roundabout way is that in one of our meetings with the Japanese

Patent Office people we have had four since our initial meeting, we brought up this matter of this long pendency and about 2 years ago the Japanese instituted what is known as an accelerated prosecution practice whereby an inventor can go into the Japanese office, identify an invention as being particularly important in trade they wish to make the invention or use it in Japan, and they will afford it accelerated status which they tell us we will grant you a patent within 12 months.

Now, that is a great step forward if you can identify the invention that is going to be worked in Japan for which you have a potential licensee or actually want to manufacture, you can get this accelerated prosecution, and it is very good, I think. That is good.

The weakness in that, one thing that we are still attempting to negotiate with them or at least discuss with them is the identification of an important invention that has already been filed as pending in the office. You cannot convert that to an accelerated status in order to get it prosecuted or you have to wait your turn which may be 5, 6 years.

But at least on those inventions in which you know there is a potential for working or licensing, you now can accelerate your prosecution in Japan. That is a little over a year old.

Senator ROCKEFELLER. Mr. Hirsch, is that more or less your testimony?

Mr. HIRSCH. I think, Senator, that is, and I want to thank you for letting us have this opportunity to discuss these issues.

[The statement follows:]

STATEMENT OF THE

PACIFIC INDUSTRIAL PROPERTY ASSOCIATION

BEFORE THE

SUBCOMMITTEE ON FOREIGN COMMERCE AND TOURISM

COMMITTEE ON COMMERCE, SCIENCE AND TRANSPORTATION

U.S. SENATE

FEBRUARY 28, 1989

This statement is to set forth the views of the American Group of the Pacific Industrial Property Association (PIPA) with regard to the Subcommittee's concern with the possible unfair effect the Japanese patent system has, or might have, on American business.

PIPA is an international organization established in 1969 by corporate intellectual property professionals in Japan and the United States. Today, the organization comprises a Japanese Group and an American Group, each representing about 70 companies. The companies of the American Group are heavy users of the Japanese patent system and, as a result, have extensive experience in dealing with the Japanese Patent Office (JPO). In recent years, for example, the American Group companies have accounted for a substantial portion of the Japanese applications filed by U.S. nationals. Thus we have a relatively sizable base of patent experience to draw upon.

Although this statement represents an American Group view, individual members of the Group are free to, and may have, taken individual positions at variance with this statement. Further information regarding PIPA is found in the attachment.

Generally, the laws of a country reflect its values and culture. No two countries have the same laws and, not surprisingly, the patent laws of Japan differ markedly from those of the United States.

Just because the laws are different does not automatically mean that the laws discriminate against foreign inventors or that it is impossible to get adequate patent protection. A difficulty arises if one assumes that the laws are the same and fails to take the time to understand the differences. Many of the Japanese practices that are considered disturbing by some are practices that are common to major industrial patent systems, the only exception often being the patent system of the United States.

It was because of the difficulties of corporations in the U.S. and Japan in securing patent protection in the other country that the founding corporations of PIPA joined together. The problem was essentially one of understanding a system based on a different culture. Both Groups recognized that, unless each had a thorough understanding of the peculiarities of the patent system of the other, attainment of the desired patent protection could not be achieved.

With the goal of better understanding in mind, PIPA members have, for almost 20 years, worked together to achieve this goal. PIPA convenes an International Congress each year, alternating between cities in the United States and Japan. The Congress typically lasts three days and affords practitioners of both Groups the opportunity to understand the patent system of the other country and to develop

techniques with which to operate effectively within it.

The American Group has found that, to a large degree, it is possible for a non-Japanese patent applicant to understand the Japanese system and culture, provided however, that the applicant is willing to expend at least a little effort to learn and understand. As a result of our PIPA activities, the American Group is convinced that the Japanese Patent Office is committed to making its system fair for all applicants, both domestic and foreign.

In analyzing the problem, one must first recognize that each nation supporting a patent system has the right to establish a system in their own national interest, except to the extent that they have subscribed to certain treaty principles. Fortunately, most of the major developed countries have subscribed to an international convention, the Paris Convention, which contains certain provisions for national treatment, right of priority, and common rules. Japan and the United States are signatories to the Paris Convention. Each country nevertheless has the right to establish its own rules of practice to govern operation within its Patent Office, and to establish its own patent laws to strike the balance deemed appropriate.

As you have heard, some of the rules and procedures in Japan are different from U.S. rules and procedures. Some we consider to require improvement from an applicant's point of view. Hence our efforts during the past 20 years have been to bring our concerns to the attention of the Japanese Group of PIPA, and more importantly, to the attention of the Japanese Patent Office.

In 1984, as a result of our activities, the JPO invited a delegation of U.S. corporate patent attorneys to the Office for a one-week discussion and training program. Many misunderstandings were eliminated. The discussions were pointed and honest. We told them of our problems and made proposals. They listened--and in

this context--"they" includes the Director General (now called Commissioner of the JPO) and most of the upper level administrative staff.

And they responded. Several important procedural changes were shortly made to help foreign applicants.

One of these, that we deem to be significant, is the institution of an interview system which permits applicants, both national and foreign, to interview an Examiner during prosecution. It is our understanding that such interviews had not been permitted prior to this time. This change in itself overcame many of the difficulties that foreign and domestic applicants alike had experienced in deciphering sometimes cryptic Office Actions, frequently based, in our case, on translation errors as opposed to substantive matters. The JPO now has an open-door policy.

At the same time, the JPO lengthened the time period for a foreign opposer to prepare an opposition to a published Japanese patent. Although the extension was only 30 days, the extension applied only to foreigners and essentially doubled the preparation time; clearly an improvement.

At this one-week JPO meeting, our PIPA Group presented other suggestions for improvement. For example, we proposed an accelerated prosecution procedure to avoid excessively long delays in allowance of patents of particular importance.

Upon each of our subsequent visits to Japan to attend a joint Japanese-American PIPA Congress, we have been invited by the JPO to meet with their Commissioner and senior officers to continue the dialogue. At each meeting we have voiced our concerns and made proposals. We mention, too, that similar meetings take place every other year between members of the Japanese Group and officials of the USPTO.

Not all of our proposals were acted upon immediately since some required legislation, but all were certainly considered by the Office. Slowly, the Office has addressed others of our concerns. We now have the accelerated prosecution procedure that we requested. We also have a procedure whereby English (or foreign) language terms likely to be mistranslated, can be included in the Japanese text as a priority basis for correction.

The most serious problem, in our view, is the time required for an application to mature into a patent. It is common for a patent application filed in Japan to be within the office, i.e., under prosecution, for as much as five or six years. This is believed due to the small number of patent examiners working in the Japanese Patent Office and the great number of patent applications filed, by both Japanese and foreign applicants.

The Japanese Office is aware of this criticism. Indeed, Commissioner Yoshida announced at our recent meeting with him, our 4th meeting in the JPO, that the Office has approval for the addition of 30 examiners to the staff in 1988, and it is hoped that another 30 or so will be approved for 1989. We deem this to be an unacceptably low rate of increase.

However, additional resources alone will not solve the problem of the time required for an application to mature into a patent. The Japanese system permits an applicant to defer examination for a period of up to seven years. The Japanese system provides for utility model protection, which encourages the filing of large numbers of applications on inventions of limited scope. Also, and most importantly, it is the practice of Japanese companies to file large numbers of applications--some companies file as many as twenty thousand applications a year. All of these factors contribute to the long delays associated with the Japanese system. We believe consideration must be given by the Japanese to eliminating utility model protection and deferred

examination. Current efforts of the Japanese Patent Office in working with Japanese companies to eliminate the filing of unnecessary applications or applications of limited value should be commended.

At our recent JPO meeting (October 1988), we again urged the Office to make changes in their opposition procedure, to convert it from a pre-issue system to a post-issue system. The JPO response to our concern has been to defend the system by pointing out that substantive rights accrue to an applicant from the date of publication of the application for opposition, so that in effect not all rights are held in abeyance during the procedure. Yet, the uncertainty of the outcome of an opposition does, in our opinion, hinder an applicant in the full exercise of the patent. The pre-issue opposition delays the patent grant and slows down informal or formal enforcement since the application still lacks the official government stamp of approval.

On the same issue we discussed with the Office the requirement that an Examiner respond, in a multi-opposition proceeding, to each opposition in upholding a patent but need prepare only one response in sustaining the opposition. Although the Office denies any implied pressure on an Examiner to avoid the preparation of multiple opinions in sustaining a patent, we believe the system is weak and should be changed. Here again, we discussed this concern openly with the Commissioner and officials.

We are thus satisfied that the Japanese Patent Office is sympathetic to many of our concerns. This is not to say that the Japanese system could not be further improved so that patent protection could be more efficiently obtained by all applicants. In this regard, PIPA, including the American Group, has always supported the harmonization efforts. Commissioner Quigg has already outlined the USPTO efforts on harmonization to you in the previous hearing. The American Group certainly endorses the general direction of this effort and the spirit in which it has been

undertaken.

The primary spirit of the harmonization effort has not been to address any inherent unfairness against foreign applicants in any particular system or to remedy any constraints. The purpose has generally been to simplify the process for obtaining worldwide protection. In this way, the cost of the patenting process can be substantially reduced and the rights that are obtained can be more uniform and easier to understand.

We would like to respond to a number of the criticisms that have been raised against the Japanese patent system in an effort to point out that, while harmonization efforts could improve the system to the benefit of all applicants, there is nothing major in the Japanese Patent Law or the way that it is implemented by the JPO that discriminates against U.S. applicants or constitutes a "constraint."

It is true that the Japanese Patent Office is a division of MITI and that some career officials of MITI serve as administrators of the Japanese Patent Office. We have no evidence to suggest undue influence by MITI or the officials in the day-to-day operation of the Patent Office, or indeed in the philosophy of the Office regarding the granting of patents. Indeed, our own United States Patent and Trademark Office is a division of the Commerce Department and we are satisfied that our PTO is under no pressure from Commerce to alter their objective examination of patent applications, whether from U.S. or foreign applicants. Yet, since this is an important issue we believe this relationship should be monitored, particularly since MITI apparently is involved in in focusing Japanese enterprise on targeted technologies. However, an examination of this relationship is beyond the scope of our experience.

Although we have not been working actively on the trade secret issue, we do agree that some form of trade secret protection for applicants-inventors in Japan

would be desirable. We recognize the difficulty that establishment of such a system of protection might entail. We have the benefit of our common law heritage, and yet securing adoption of a Uniform Trade Secrets Act, which in large measure codifies our common law, has been a long and difficult process.

We have already commented on the excessive time to secure a patent in the Japanese Office.

In Japan the patent term is measured from the date of filing and thus the clock is running during prosecution. It must be appreciated, however, that this is the norm and that the United States is the exception. That is, most countries do not measure their patent term from the date of patent issue. Thus, we believe that it is not appropriate to criticize the Japanese patent system for being discriminatory for a practice that is almost universal.

It is true that applications are not accepted by the Japanese Patent Office in any language other than Japanese, thus requiring a translation prior to filing. It is because of the virtually universal requirement of patent offices around the world that an application be filed in the national language that the Paris Convention was formed over 100 years ago. The Convention established a "priority year" to prepare an application for filing in other countries, and to shield an applicant from prior art arising subsequent to the priority date but prior to the national filing date. The one-year convention period and the still more liberal PCT period provides ample time to obtain a suitable translation. Thus, the language requirement is not seen as a "constraint."

The concept of filing in a language other than the national language of the Office is a relatively new one. The concept developed with the establishment of the European Patent Office which, by design, accepts applications in any one of several

languages. U.S. practice now permits filing in a foreign language, and we know of no problems that the practice has caused. We believe that the Japanese practice should be changed and we discussed this with Commissioner Yoshida and others at our recent meeting in Tokyo. We shall continue to urge the Japanese to give us reciprocity in this respect, and believe that others should also ask for a change in Japanese practice. However, since this is a recent trend in international practice, the current Japanese requirement is hardly a constraint of trade.

The issue of a grace period has been discussed, noting that Japan has only a six-month limited grace period as opposed to a one-year grace period in the United States. It must be noted that most countries provide no grace period whatever. That is, most have an "absolute novelty" standard by which any publication or other act of divulgation prior to the priority date of filing is fatal. Thus, for an applicant who needs to protect an invention in many countries, in practice, it is a no-grace-period world. Under certain circumstances, Japan and a few other countries allow a six-month post-divulgation filing. It is only the United States, Canada and the Philippines that provide an even more liberal grace period. We much prefer the all forgiving grace period of the U.S. to the limited grace period of the Japanese where only the applicant may claim the forgiveness for his or her own acts, and then must assert the claim at the time of filing.

The current harmonization efforts involving the U.S., Japan, the EPO and other countries include the consideration of a grace period, probably with a one-year duration. Thus, although Japan is not outside of the norm on this issue, we urge a change in the Japanese practice, with or without a harmonization treaty.

We have already mentioned our concern about the vagueness by which some Examiners express their concern and rejections of an application. We have been discussing this with the JPO for a number of years. Some improvement is already

noticeable. Clearly the opportunity to interview the Examiner in the face of a vague comment upon rejection is an improvement. Yet, the completeness of the Office Action, or interview, is necessarily influenced by the Examiner's workload.

It has been noted that an applicant is very restricted in his or her ability to correct a translation error. This is of particular concern since the translation is largely out of the hands of a foreign applicant. Most foreign applicants use Japanese nationals as translators for their applications and prosecution papers. It therefore seems arguable, at least, that a foreign applicant should not be penalized for an act performed by a Japanese citizen.

To help in this regard, the Japanese have, at our suggestion, made a change in their practice. We may now include, within the Japanese language text, parentheses containing our English word for an unusual element. Thus, should the translator select an inappropriate character or group of characters as the translation for the English word, the enclosed English word will stand as a foundation for a corrected Japanese text. Although helpful, we deem this an insufficient change. We believe the JPO should permit corrections based on the priority document or the earlier filed international case, both of which are highly verifiable.

Surprisingly, the Japanese system has been criticized because an application is published 18 months from the date of the priority filing. We say "surprisingly" because this is the norm followed by most patent offices of the world. The United States is one of the few countries that preserves its applications in secrecy until the patent is issued. All patents filed in the EPO are published, as are applications filed in the national offices of most countries. Canada has recently elected to drop their system of secrecy and opt for the 18-month publication. Again, it seems inappropriate to criticize the Japanese for a practice that is almost universal. Certainly anyone filing outside of the United States, in Japan or elsewhere, does so knowingly

and must expect that such publication will be made as a part of the application process.

It is said that the pre-grant opposition procedure places a burden on the applicant because the opposer can prepare his opposition over several years while the applicant has only a few months to respond. It should be noted first that Japanese practice does not discriminate against foreign applicants since Japanese applicants must deal with the same situation. In addition, the Japanese Patent Office in this situation, as in many others, gives foreign applicants additional time compared to domestic applicants and this time compensates for the time required for translation. Finally, unless there are extensive experiments that must be performed to overcome the opposition, the time limit given is adequate. It must be remembered that the applicant does not need time to learn about his own invention and usually will not need to do any prior art searching.

A major criticism of the Japanese system has been that Japanese inventors file numerous applications to protect their inventions, as opposed to those in the United States who often follow the practice of filing a few applications with multiple features to protect the technology. This, in large measure, is because the claim format employed in Japan is substantially different from that employed in the United States. Japanese practice prefers applications drawn to narrow inventions or improvements, and claims drawn to relatively narrow inventive concepts. Other nations have similar preferences. In contrast to the United States, therefore, this is a significant difference. In this country applications frequently cover entire concepts with claims drawn to broad generic inventions. Frequently, multiple claims directed to variations, embodiments, and equivalents are used. Foreign applicants may of course learn the Japanese system, file as many applications as desired in Japan, and draft them with whatever scope and detail that they choose. For the most part, American applicants

choose to go to Japan with the United States application, or with a slightly revised United States application. Clearly, this is the choice of the applicant.

The real issue, in our opinion, is not the number of applications filed, but the validity of those applications that mature into patents. Clearly, many of the applications filed in Japan do not mature into patents either because of elective abandonment or prosecution. Those that do have survived a rigorous, albeit long, examination and opposition. These procedures, we believe, are effective to assure that the patents are granted for inventions and not just for minor, but obvious, changes to known technology, and that they are granted only to the inventor or inventors of the subject matter. In Japan, a greater presumption of validity attaches to the granted patent. Nullity actions take place within the Office, and are rare.

It should be remembered that one of the purposes of the patent system is to encourage disclosure of inventions so that further creative ideas will be stimulated. To criticize the Japanese for achieving this goal is believed inappropriate.

The scope of a Japanese claim is generally determined by those negotiating a license or an exchange of rights as opposed to interpretation by a court. It is infrequent that a court acts to set the meets and bounds of a claim. Therefore, a prospective licensee is not likely to accord a generous range of equivalents. Generally speaking, however, a claim in Japan is interpreted strictly within the scope of the specification. Since Japanese specifications are generally narrow, and claims are specific to the narrow disclosure, it follows that claims are narrowly interpreted. Unfortunately, this practice seems, in some cases, to extend to patents of U.S. origin, which generally have broad specifications and claims.

We are encouraged, however, because of the adoption by the JPO of a multiple claim system which permits improved claiming of subject matter disclosed in

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a broad specification. Claim interpretation of course is a matter of concern in each national jurisdiction; there is little agreement among countries on this. The harmonization effort mentioned above is concerned with this issue.

Finally, concerns have been expressed on the difficulty of proving infringement and the absence of rules governing fraud on the Patent Office. Inequitable conduct, loosely termed "fraud on the patent office", seems to be a concept unique to the U.S. Japan, to our knowledge, has no such concept in their law. Japan, however, is in the majority. Most countries do not require an applicant to bring forth known prior art as a condition for obtaining a valid patent. Yet, we believe that applicants should be encouraged to cite known art and we stand for the principle that relevant art should not be concealed.

In summary, the American Group of PIPA believes that there are many aspects of the Japanese patent law and practice that could and should be improved, to benefit both Japanese applicants and foreign applicants. We have discussed most of these with the Japanese Patent Office officials and believe that the Japanese Patent Office has been both understanding and, to a degree, accommodating. We further believe that continuing efforts for improvement should come not only from organizations such as PIPA but from the governments involved. To this end we fully support the position outlined to you by Commissioner Quigg. His presentation to you was comprehensive and he outlined the continuing efforts toward harmonization of the patent systems of all nations.

From our collective experience, we are convinced that it is possible for a foreigner to learn to use the Japanese patent system to advantage, and that Japanese Patent Office practice does not discriminate against foreigners, nor does it constitute a constraint of trade.

Senator ROCKEFELLER. Thank you. And, again, Senator Packwood, intervene at any point. Mr. Lourie, we would be delighted to hear from you, sir.

STATEMENT OF ALAN LOURIE, SMITH-KLINE BECKMAN CORP., PHILADELPHIA, PA

Mr. LOURIE. Thank you, Senator. Senator Packwood.

We appreciate the invitation to appear before the subcommittee and to try to contribute to a better understanding of the United States and Japanese patent systems.

At its conference in Tokyo last July, the United States-Japan Business Council on whose behalf I am testifying today, set up several task forces to study particular problems. Among them was a patent task force whose purpose was to assist our respective governments in attempting to lessen the differences between our patent systems.

In light of the recent well publicized criticisms of the Japanese patent system, testimony on which was presented before the subcommittee last June, we felt it would also be helpful to consider whether any aspects of the Japanese patent system caused trade distorting problems for United States industry.

In summary, we believe that it would be incorrect to refer to the Japanese patent system as a non-tariff barrier to trade. In fact, it is generally regarded as as strong a patent system as that of the United States.

There are aspects of it that are troublesome to U.S. industry, and we have elaborated on them in our written testimony.

On the other hand, Japanese industry considers that there are aspects of the United States patent system that are troublesome to them. In any event, we do not consider legislative action is needed by this committee.

First, we concluded that the Japanese patent office is greatly understaffed. Our Japanese counterparts agreed. The United States group also made recommendations that were not joined in by the Japanese, and they had reasons for their disagreement. While the United States group feels that these reasons are not without merit and none of these suggested changes by themselves would transform the Japanese patent system, the United States group believes their total impact would be beneficial.

The United States group also felt that there have been problems with the Japanese patent litigation system. The Japanese group, on the other hand, argued that changes have already occurred.

The discussions of our joint task force were undertaken in the wake of publicized allegations by Fusion Systems and others at a hearing of this committee last June that the Japanese patent system is a non-tariff barrier to trade.

Our task force resolved that we could not attempt to settle the complex matters that lay at the heart of disputes between individual companies. Nonetheless, the United States group attempted to establish with its Japanese counterpart certain basic principles that were the subject of the public allegations.

These related to the principles that there should not be interference in patent examination and adjudicative processes by political

organs of government, and the idea that patent applications should only be filed on inventions made by applicants and not on inventions copied from others.

These fundamental and universal principles have not yet been reaffirmed by our joint task force. Our Japanese colleagues considered that Japanese law and practice would preclude improper interference in examination and adjudication processes and would cause rejection of copied applications. They perhaps felt that a statement of these principles might imply that the public criticisms of Japanese practices were justified. Both parties have recommitted themselves to seeking agreement on these principles.

In addition, the U.S. group believes that more fact finding and analysis of the kind that our task force could not undertake is necessary in order to better determine whether and to what extent the Japanese patent system has been utilized to the disadvantage of foreign innovators.

The Japanese group had several recommendations for change in the United States patent system. A number of these were already under consideration in the United States or within the context of various multilateral discussions, including the harmonization treaty that you have heard about.

In this context one should note the excellent cooperation that exists among the United States, Japanese and European industry and government in attempting to improve intellectual property protection around the world.

We believe that our meetings have been constructive and useful. We will continue to meet with our Japanese counterparts in the hope of reaching further agreement.

I would be happy to answer any questions that you may have.

[The statement follows:]

STATEMENT OF ALAN D. LOURIE, VICE PRESIDENT, CORPORATE PATENTS & TRADEMARKS, SMITHKLINE BECKMAN CORP.

My name is Alan D. Lourie. I am Vice President, Corporate Patents & Trademarks, SmithKline Beckman Corporation, Philadelphia, PA, and I am testifying here today in my role as Chairman of the U.S. group of the joint patent task force of the United States-Japan Business Council. We appreciate the invitation to appear before this subcommittee and to try to contribute to a better understanding of the U.S. and Japanese patent systems.

The U.S.-Japan Business Council is a group of top executives of about 130 U.S. and Japanese companies. Its purpose is to facilitate the exchange of views and the advancement of cooperation between American and Japanese businesses in matters of trade, investment and finance. At its 25th business conference in Tokyo on July 10–12, 1988, the Council set up, in Japan and the U.S., several task forces to study particular problems. Among them was a patent task force, whose purpose was to assist our respective governments in attempting to lessen the differences between our patent systems. In the light of recent well-publicized criticisms of the Japanese patent system, testimony on which was presented before this subcommittee last June, we felt it would also be useful to consider whether any aspects of the Japanese patent system caused trade-distorting problems for U.S. industry.

The U.S. and Japanese groups each drew up a list of problems it saw in the other's patent system. We exchanged preliminary comments on each other's list and then the joint task force met in Washington for two days to discuss the issues that had been raised. Although we speak today only for the U.S. task force, not the joint task force or the entire council, we understand that the subcommittee is interested in our conclusions.

In summary, we believe that it would be an overstatement to refer to the Japanese patent system as a non-tariff barrier to trade. There are aspects of it that are troublesome to U.S. industry and we will elaborate on them below. On the other

hand, Japanese industry considers that there are aspects of the U.S. patent system that are troublesome to them. In any event, we do not think that legislative action is needed by this committee.

I would now like to elaborate on the above general statements. Preliminarily, one should emphasize the many similarities that exist between the two patent systems. The more significant shortcomings of patent systems around the world that constantly trouble U.S. industry, and that are the subject of various multilateral and bilateral efforts by our government, do not exist in the Japanese patent system. Important exclusions from patentable subject matter and inadequate statutory patent term, which often concern us in other countries, are not matters that need to be changed in the Japanese patent law. In fact, Japan, the U.S., and Europe are allies in the World Intellectual Property Organization and in the General Agreement on Tariff and Trade in attempting to persuade other countries to improve and harmonize their patent systems. We have had a history of constructive interaction between industry and the bar of our two countries. The Pacific Industrial Property Association, to which many of the U.S. and Japanese task force members belong, is an example of the long-standing cooperation that has existed between U.S. and Japanese patent counsel.

Having said that, the U.S. group believes that aspects of the Japanese patent system should be changed. We discussed these with our Japanese counterparts and obtained varying levels of agreement and non-agreement.

First, we concluded that the Japanese Patent Office is greatly understaffed. This results in a large backlog of pending applications so that neither Japanese nor foreign patent applicants are granted patents on a timely basis. Solution of this problem would do a great deal to enable the Japanese patent system to achieve its proper purpose, viz. to stimulate invention and investment. Both the U.S. and the Japanese patent task forces support significant increases in staff to deal with the backlog.

We recognize that one of the reasons why the Japanese Patent Office has such a backlog is that the single claim practice which existed in Japan until recently resulted in a large number of applications being filed by Japanese industry. This practice has been changed, and the joint task force supports efforts to encourage rapid acceptance and use of the new multiple claim practice as well as increasing the manpower of the patent office. The U.S. group, however, believes that other measures may be needed as well.

The U.S. group also made recommendations which were not joined in by the Japanese. One of these is to permit priority dates to be obtained in the Japanese Patent Office by means of filing patent applications in a foreign language, as is now possible in the U.S. Patent and Trademark Office. Translations would, of course, be required before examination. We also recommended permitting correction of translation errors, based on the authentic text of a foreign priority document. These changes would lessen the possibility that patent rights of foreign inventors might be lost merely due to their unfamiliarity with the Japanese language.

Change in the current seven-year deferred examination practice and elimination of the pre-grant opposition system were also recommended by the U.S. group, in order to shorten the long period of time before it is known whether and when a Japanese patent will be granted.

The Japanese group had various reasons for not supporting these proposals. They felt that the foreign language and translation error changes are unnecessary and would be difficult to accomplish. They emphasized that use of the Patent Cooperation Treaty enables a filing date to be obtained in the English language. They argued that oppositions can eliminate patents that should not have been granted, and that deferred examination can result in some patent applications not having to be examined. They felt that the seven-year period for deferred examination serves to lessen the workload at the Japanese Patent Office and thereby shorten the pendency time.

While the U.S. group feels these reasons are not without merit and none of the suggested changes by themselves would transform the Japanese patent system, the U.S. group believes their total impact would be beneficial. Currently these aspects of the Japanese patent system lead to the possibility that a patent application can be effectively tied up in challenges for all or most of its lifetime. Minor errors can also be very costly. Therefore, our recommended changes should be helpful in producing a quality patent in a more timely fashion.

The U.S. group also felt that there have been problems with the Japanese patent litigation system, including unduly narrow interpretation of patents by the courts, long time periods before a case is resolved (we in the United States also have to improve in this regard), and an inability to obtain preliminary injunctions. The

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result has been that patents at times don't serve as means for enforcing exclusive rights.

The Japanese group, on the other hand, argued that their courts have been interpreting patents more broadly than in the past and that preliminary injunctions have been granted in a reasonable number of cases. They presented data indicating that the average case is disposed of in less than four years. The U.S. group had not themselves experienced these changes, but welcomed the assurance that they were occurring.

With respect to the issue of broader interpretation of patents, the joint group agreed that patents should be interpreted to provide protection in accordance with the importance of the inventive concept embodied in the patent, even if beyond the literal scope of the patent claims and specific embodiments disclosed in the patent specification.

The discussions of our joint task force were undertaken in the wake of the publicized allegations by Fusion Systems and others at a hearing of this committee in June that the Japanese system is a nontariff barrier to trade. The joint task force resolved that they could not attempt to settle the complex matters that lay at the heart of disputes between individual companies. Nonetheless, the U.S. group attempted to establish with their Japanese counterparts certain basic principles that were the subject of the public allegations. These related to the principle that there should not be interference in patent examination and adjudicative processes by political organs of government and the idea that patent applications should be filed only on inventions made by the applicants and not on inventions copied from others. These fundamental and universal principles have not yet been reaffirmed by the joint task force. Our Japanese colleagues considered that Japanese law and practice would preclude improper interference in examination and adjudication processes and would cause rejection of copied applications. They perhaps felt that a statement of these principles might imply that the public criticisms of Japanese practices were justified.

While the Americans did not agree with all the criticisms of the Japanese patent system that had been raised publicly by others, they were concerned that there may be some substance to the charge that Japanese companies filed excessive numbers of patent applications, some of them perhaps based only on "paper" disclosures or minor improvements, thereby causing adverse consequences for the patent system and examining process and preventing innovators from effectively obtaining the exclusive rights normally provided by patents.

Both parties have recommitted themselves to seeking agreement on these principles. In addition, the U.S. group believes that more fact-finding and analysis of the kind that our task force could not undertake is necessary in order to better determine whether and to what extent the Japanese patent system has been utilized to the disadvantage of foreigners.

The Japanese group had several recommendations for change in the U.S. patent system. A number of these were already under consideration in the U.S. or within the context of various multilateral discussions, including the harmonization treaty being negotiated in Geneva under the auspices of the World Intellectual Property Organization. These include modification or elimination of our interference system to move from a first-to-invent to a first-to-file-system; changes in 35 U.S.C. 104, which for interference purposes does not permit proof of the dates of inventive acts performed in foreign countries; elimination of the so-called Hilmer doctrine, which limits the prior art patent-defeating effect of a foreign application to its actual U.S. filing date; expansion of the right of third parties to participate in our reexamination practice; change of patent term to begin with date of patent filing rather than grant date in order to avoid the occasional unduly-extended patent term resulting from protracted pre-issuance proceedings; and sharpening of the definition of the duty of disclosure in the U.S. Patent and Trademark Office. The U.S. group supported some change in these areas within the context of harmonization and other ongoing governmental activities. The joint group also discussed and supported worldwide harmonization of restriction requirements and a uniform grace period.

Additionally, the Japanese group expressed concern that the U.S. Patent and Trademark Office has granted some patents that should have been rejected and that, in a time of stronger enforcement of patents, third parties could be harassed by such patents. The U.S. group felt that the overall performance of the Patent and Trademark Office was of a high quality and considered that the strengthening of the patent system in the U.S. was healthy. An occasional grant of a patent that should have been rejected should not be a basis for modification of a system that otherwise works well.

Appended to this testimony are the lists of changes each side recommended to the other and their respective initial comments on these lists.

We believe that our meetings have been constructive and useful. Each group will no doubt communicate its views to its governmental representatives engaged in bilateral discussions in order to assist them in improving both our patent systems for the benefit of trade and industry in our countries. We will also continue to meet with our Japanese counterparts in the hope of reaching further agreement.

Senator ROCKEFELLER. Thank you, Mr. Lourie.

Senator Packwood.

Senator PACKWOOD. Mr. Chairman, I have no questions. I had a chance to read both of these statements in full. They are excellent statements. Gentlemen, you have answered a lot of questions already. Thank you very much.

Senator ROCKEFELLER. In 1988, Japan changed its practice to allow applications with multiple claims. Mike Kirk has told us that the Japanese have reported that in the first ten months of 1988 patent applications had an average of 2.77 claims as contrasted to 1.25 claims in 1986 and 1987. Is that a good sign? Is it too early to tell if this is having an effect? Would either of you care to talk about that?

Mr. HIRSCH. Well, I think it is probably too soon. I think those figures may easily reflect foreign applications who are now allowed to keep those extra claims in their already filed applications or their newly filed applications.

We discussed this with our PIPA Japanese counterparts and urged them to start using the system, but I do not think we have seen a great deal of use by the Japanese of that multiple claiming system as yet. It would help them to reduce the backlog or the number of filed applications. It certainly helps the foreign applicant.

Mr. LOURIE. I agree. It is certainly a step in the right direction, and it is too soon to tell how significant that will be. It has to help.

Senator ROCKEFELLER. Could each of you gentlemen describe the areas where you are trying to reach agreement. You have made reference, particularly you, Mr. Hirsch, where you have tried to reach agreement and then agreement was not always possible. You both said that you are basically satisfied. Mr. Lourie, you have said you do not think it is a non-tariff barrier and yet, on the other hand, you both said there are areas that have to be worked out. Particularly you, Mr. Hirsch, were talking about trying to work out some of those problems.

Could you just go over for us again some of the areas where you do disagree with Japan, where you continue to disagree, and what arguments are given as to why the change on the Japanese side or on our side should not follow?

Mr. HIRSCH. Well, one of the ones that I alluded to is the chemical practice of requiring examples in the specification to support interpretation of the claim and the reluctance of the Japanese to go beyond those examples, and I think perhaps Alan could speak on that a little better than I since he is in that industry.

Another one that we—and I mentioned earlier—was this pregrant opposition which really ties us up, and with the many oppositions that are filed after the initial one, others seem to join the bandwagon, and we have eight, ten, twelve opposers on one of our important patents, and that drags the proceeding out.

The European practice of limiting the time during which an opposition can take place and moving it along quickly and having it after the patent issue is certainly something that we should continue to work for.

We believe that the language problem allowing the benefit of reliance on our priority document as opposed to having to try to change it and stand with out initial translation is not the way to go. Those are the ones that we have been working on most recently.

Mr. LOURIE. Senator, I think that we pretty much have the same list because we tend to share memberships in the same organizations. Many of the members of our task force are members of PIPA and tend to have the same thoughts.

The elimination of the current 7-year deferred examination system is something that we recommended. The Japanese disagreed with that. They pointed out that in their view the backlog would be the examination problem would be worse because the thought is that some deferred examinations are never examined.

I think the data show that most of them are examined and what you are doing is just deferring the problem, and you have this multiyear overhang of potential patents that create an uncertainty for third parties.

The pre-grant opposition system we recommend it be eliminated. We felt that the patent should be granted and then if there is an opposition system, then that can come into play.

The Japanese felt that before the patent became more permanent that third parties should have an opportunity to oppose it. I think most of industry outside Japan, though, favors eliminating pre-grant oppositions and, in fact, when the European patent system which is probably the best example of a modern patent system these days was set up in 1978, we began in 1978, there were no pre-grant oppositions because I think the history in Europe had been that pre-grant oppositions go on forever. And patents simply do not get granted.

So, pre-grant opposition, elimination of that was one of our items.

Mr. HIRSCH. Senator, I have thought of one more, if I may, and that is effectively the inability of a company to get injunctive relief during this period, long period of pendency and, in particular, the opposition.

There may be an injunctive relief; that is, an injunction can issue in Japan. I am not aware of it. We have never seen it, and certainly while you are tied up in the patent office for all of this time either in prosecution or in opposition effectively you have no such right. I think this is a problem that we should address.

Senator ROCKEFELLER. The Japanese traditionally have taken at least part of their education system from the Germans. And you have indicated that the European patent system works better.

Let us take the case of Germany. What is the—if you gentlemen know—the average pendency in Germany for United States patents?

Mr. HIRSCH. Well, in Germany we have not, frankly, filed many applications in the German national office since the beginning of EPO, the European patent office, where we generally file and des-

ignate Germany as one of the countries that has been increasing from about two years to upwards of three years.

The German system when we file nationally can take at least 3 years for prosecution, 2 to 3 years, but then they have an opposition which can tie us up for a great deal of time. We have had some examples of our patent applications in Germany which had virtually expired since they measure from the day of filing before the opposition was complete.

Their argument was well, there are some post-grant rights. If you are successful, you can go back and negotiate some agreements. Germany was very long. The EPO, because they are handling a substantial number of applications, have been increasing. But my impression is that it is about 3 years. The United States is better.

Senator ROCKEFELLER. I brought up earlier the matter of MITI and the potential for government intervention. I do not want you to be pushed by the way I phrase this question; resist it if you feel that way.

But it is a little disturbing to hear about the unwillingness of Japanese businessmen, at least, as you have described it, Mr. Lourie, to subscribe to the proposition that political organs of government should not interfere in the patent process, and that patent applications should not be filed on inventions copied from others.

I can understand the resistance of the Japanese to agree to that, if it implied by agreeing to it that, in fact, there was intervention and so this is kind of an indirect reason that they might stiffen against that.

On the other hand, you were talking about trying to reach basic principles, and it would seem to me to be a fairly fundamental principle. So, do you feel that there is, in fact, strategic intervention on the part of political or government entities in Japan, or is that just a tree that I should not be looking up?

Mr. LOURIE. We really were not able to grapple with that. None of our members were convinced that there was such intervention.

You have heard testimony from people who believe it exists, and we certainly do not question their impressions, and we do not know if their appraisal of their histories is accurate or not. We simply do not know.

Some of our people have the impression that the patent office in Japan was a rather open organization where interested third parties could come in and speak to examiners about a patent application. This certainly cannot happen in the United States. Our Japanese colleagues said that does not occur. I do not know the answer.

Mr. HIRSCH. I have to agree that I really do not know the answer. It is true that the Japanese patent office personnel—not the director general now called the commissioner—but the rest of the staff are career civil service people, and they more or less run the office.

The commissioner cycles through MITI and through the patent office for a 2-year term as an administrative head of the office. Whether that permits influence I do not know. I rather doubt it.

I would think that if there is any collusion or influence from MITI toward the patent office, it would come through other channels.

Senator ROCKEFELLER. Mr. Hirsch, let me ask you another question. Since patents run from the date of filing in Japan, do you think that delays, whether that be 2 or 3 or 4 or 5 or 6 years, have an effect on the value of the patent when it is granted?

Mr. HIRSCH. I certainly do. Not necessarily when it is granted. Then I believe you have rights from that time on. But during that long pendency, even though the application has been published and others know about it and can surmise that you have got an invention you are relatively restricted in what you can do.

Certainly the more critical issue the notice publication for opposition, at which time the patent office has said you have a patent right. Then you can be tied up in opposition.

The Japanese answer is ah, but you do have substantive rights as of that publication and you can do something with those rights. In reality you have got a questionable patent and our experience has been that negotiations on the basis of an expectancy that you will survive an opposition is very low, and it is a very weak position to be in.

Senator ROCKEFELLER. You acknowledge problems with translations based upon an earlier filed application in English. Do you think the Japanese will adopt this position?

Mr. HIRSCH. We have talked with them about that. They resisted our suggestions last fall. I think perhaps they will. I think it is something that would be to their benefit and I would hope they would but I cannot speak for them, of course, sir.

Senator ROCKEFELLER. Mr. Lourie, in your written testimony you have said that your group believes that more study is necessary to determine whether and to what extent the Japanese patent system has been utilized to the disadvantage of foreigners, and you implied that this is beyond the resource capability of your group. Now, resources are available to me. I wonder if it would be possible in the next several weeks to give me a list of the type of examinations, questions that you would like to see performed.

Mr. LOURIE. All right. I would be happy to.

Senator ROCKEFELLER. Gentlemen, as a general question, the Japanese often criticize us, and I think correctly, for not making sufficient effort, Mr. Hirsch, you talked about 24 of your colleagues who went over there and you learned the system—you learned the patent system. It is true that Americans, have been traumatized—or not traumatized but relaxed—by the enormous size of our own market, and that there really was not a trade deficit, a global trade deficit at least, until 1980; I think the trade bilateral with Japan began in 1964.

It was not a matter of great consequence until the early 1980's, and, even today, as the trade deficit declined last year, many predicted it will continue to grow this next year. There seems to be no real trend, and even though American exports have done a lot better in the last year or so, nevertheless one worries.

Now, the American effort, or the lack of the American effort, is a real problem. You said you and your colleagues have done it, and it has had an effect.

But analyze for me the deficiency, as you see it, of the American effort with respect to the Japanese patent system, and also analyze for me—and I will make this my final question—where you think

that we are dealing more effectively with the Japanese patent system, not only in terms of our effort but with respect to changes that are being brought about because of our effort to understand them.

Mr. HIRSCH. Well, the greatest deficiency I think is a reluctance, a fear of the system, perhaps. The cultures are so different. Their language is so different. We do not speak the language. Many have just decided to hide behind well, it is a different system and therefore they are not like us. Make them change. I think that is the wrong way to do it. They have their patent system, which is not all bad. It certainly stands improvement, but one can learn to use it with sufficient effort.

Senator ROCKEFELLER. Describe "sufficient effort."

Mr. HIRSCH. Sending people over there to sit with the agents, to attend meetings in the patent office. The patent office has told us following our first meeting that they are open to anyone who wants to do this, not just PIPA members. We have done it five times, and every time one of our members goes over they attempt to meet with those folks. We have of course hired Japanese attorneys for our office in Japan.

Senator ROCKEFELLER. Do you mean individual companies?

Mr. HIRSCH. Our company, yes, and other companies as well. We have—this was a question that you asked Professor Caton. Why do not more Americans send people over there to study in Japan? Well, language is one of the reasons, but we have attempted to do this through our own agencies, our own departments over there. I think it is a matter of reluctance and fear of the system, and I think companies should spend more time in sending their people over there to learn. There are courses that can be taken.

The second part of your question I believe was what should we be continuing—and I have really forgotten the question, Senator. The second part of your question.

Senator ROCKEFELLER. Well, where we do make an effort, we get better results. Does a better effort bring about a faster or a lesser pendency? Put it that way.

Mr. HIRSCH. I think it has reduced the pendency, because we have learned how to work within the system, and I think that is true. We have reduced our pendency. We do not go through all of the roadblocks that we used to do. We interview cases. We have our agents discuss the issues.

Senator ROCKEFELLER. Are you high tech? Excuse my ignorance.

Mr. HIRSCH. Yes we are, sir.

Senator ROCKEFELLER. And how often, as I made earlier reference to the rapid evolution of technology, where 2 or 3 years is a generation, do you put a patent in and 2 or 3 years later you might as well not have it because it has been surpassed. Is that overstressing technological change?

Mr. HIRSCH. No, I do not think so. We do have such inventions, but fortunately many of the ones that we have at Bell Laboratories are the long-term generic inventions that last for a while, and we have not experienced that fast turnaround. But in some of the microchip and other inventions that is entirely true.

Senator ROCKEFELLER. Do you have a comment on that, Mr. Lourie?

Mr. LOURIE. We do not have that problem either in the pharmaceutical industry, because our development is long-term, but when we file a patent application it is probably 10 years until that product has gone through all of the testing and approval process and enters the market, and so we do not have that problem.

Senator ROCKEFELLER. Well, gentlemen, I thank you. This is a difficult subject and it is an important subject, and I do think it is very much related to the trade relationship.

This was an excellent hearing, and I truly appreciate the contributions made by all the witnesses to a further understanding of the Japanese patent system. My conclusion is that the United States Patent and Trademark Office, the United States/Japan Business Council, and the Pacific Intellectual Property Association all have a lot of work ahead of them to assure that American industry receives appropriate patent protection in Japan. The challenges are daunting, as is the list of problems we still confront in Japan.

Eight months passed since this subcommittee held its first hearing on this subject. I don't intend to wait that long before getting an update on the state of discussions and negotiations. I am particularly interested in the meeting of the United States/Japan Working Group that Mike Kirk will chair next week. I hope that the Japanese Government will take that meeting seriously and use it in a constructive way to address the issues at hand rather than try to use it to "reach mutual understanding."

Thank you all for coming today.

The hearing is adjourned.

[Whereupon, at 11:15 a.m., the hearing adjourned.]

ADDITIONAL ARTICLES, LETTERS, AND STATEMENTS

STATEMENT OF KARL F. JORDA, CORPORATE PATENT COUNSEL, CIBA-GEIGY CORP.

My name is Karl F. Jorda. I am Corporate Patent Counsel for CIBA-GEIGY Corporation and have been the head of its Patent Department for 26 years. In May of this year, I will leave CIBA-GEIGY and become David Rines Professor of Intellectual Property Law and Industrial Innovation and Director of the Kenneth J. Germeshausen Center for the Law of Innovation and Entrepreneurship at the Franklin Pierce Law Center, Concord, New Hampshire.

My career as an intellectual property lawyer has spanned some 32 years, and during this period, I have been active in industry and professional organizations: I am a past president of the Pacific Industrial Property Association (PIPA) and the New York Patent, Trademark and Copyright Law Association (NYPTC). I served on the board of directors, the council or the executive committee of the American Intellectual Property Law Association (AIPLA), the Patent, Trademark and Copyright (PTC) Section of the American Bar Association (ABA), and the Association of Corporate Patent Counsel (ACPC). I am presently a member of the Board of Directors of the Intellectual Property Owners, Inc. (IPO) and of the Executive Committee of the American Group of the International Association for the Protection of Industrial Property (AIPPI). In May, I will be nominated to be a member of the Board of Directors of the U.S. Trademark Association (USTA).

Today, I am appearing here on my own behalf rather than on behalf of CIBA-GEIGY or PIPA and the views I express are not necessarily those of CIBA-GEIGY or PIPA. However, whatever experience, knowledge and insights I have regarding Japanese patent law and practice, I have gained for the most part through my long-term association with CIBA-GEIGY and PIPA.

I'm pleased to have the opportunity to appear before this Subcommittee and provide my own personal observations and perspective on the subject of Japanese patent law and practice. I'm aware of the testimony heard by this Subcommittee in June, where there was some criticism of the operations and procedures of the Japanese Patent Office (JPO). I commend this Subcommittee for holding this second Hearing to listen to the other side of the story.

Let me start with events in 1984. Mr. Hirsch has already mentioned a one-week conference at the JPO in that year attended by a delegation of US corporate patent attorneys. That conference, styled by the JPO "International Conference of the Patent Leaders' Team of US Firms and the Japanese Patent Office," was a first opening of the JPO and its inner workings to the foreign patent world. As such it deserves a few additional comments.

I was the President of PIPA at the time, and I was asked by Mr. Wakasugi, JPO's Director General, to assemble and bring to Tokyo a US delegation of 20-30 chief patent counsel from among the 40 biggest American users of the Japanese patent system and who represent different industries and technologies. Twenty-four participated.

The conference was sponsored in response to problems with Japanese patent practice experienced by US companies; questions had been raised among US patent counsel whether the JPO was completely impartial. In 1983, the Foreign Law Committee of the ABA-PTC Section had looked into the issue of JPO discrimination against US applicants and reported that the charges could not be substantiated. The committee concluded American applicants encounter other difficulties at the JPO having to do with language and cultural differences. Apparently, it was disturbing to the JPO that the fairness question had come up, and the 1984 conference was one response to that concern.

Even before the '84 Conference, Mr. Wakasugi had made a "formal declaration" at the PIPA Congress in Washington in October 1983: the JPO would be "open and transparent except for confidential material and receptive to all direct and indirect contacts." We considered that proclamation as a significant milestone.

At the 1984 Conference itself, Mr. Wakasugi, who had taken over the JPO in 1983, apparently with the special mission to internationalize the JPO, elaborated:

Three directions characterize JPO policies and goals: (1) rationalization, (2) informatization, and (3) internationalization. A paperless system is envisaged * * *. Ultimate ideal: world will share the same patent system. This is far away. Meanwhile, an intermediate solution: Patent offices must facilitate the patenting process for foreigners and teach them their systems but also listen to what foreign applicants have to say. Hence, this conference. Our hope is you'll better understand our system and see how open the JPO is. Candid suggestions and comments are welcome. Our two countries share a PIPA bridge. And the close relationship between the USPTO and JPO, especially for the past two years, is a model on a global basis.

A few months ago, in another JPO/PIPA meeting—the fourth meeting since 1984—the present JPO Commissioner, Mr. Yoshida, reiterated and reconfirmed that the JPO is "open to all problems, all people, at all times" and that they want to make their patent system more "user-friendly."

Based on my experience and involvement, it is my opinion that these statements are not just empty words. However, JPO officials have always cautioned that their openness and cooperation "presupposed familiarity with the Japanese system" on the part of foreigners dealing with the JPO.

In fact, the JPO issued a policy statement encouraging interviews with examiners and meetings with JPO officials. US patent practitioners, corporate as well as private, have availed themselves of the opportunities afforded by this new policy.

I was present in one case, for example, where a successful interview was held with several JPO officials in an administrative appeal case which involved a grace period issue in a PCT application.

In this connection, Alexander P. DeAngelis, head of the National Science Foundation's Tokyo office, had this to say in a recent issue of Chemical and Engineering News (C&EN, 1/2/89, p. 14): "Too much * * * is made of the (cultural) differences or the special knowledge that's needed. I find officials here are very accessible and very open. It's easy to call up an agency and say I'd like to come up and talk. There's not a lot of protocol."

Interviews with JPO examiners, previously rare, are now rather standard practice, and Mr. Hirsch alluded to this in his testimony. It can be very helpful in any country to interview a patent examiner to clarify and advance patentability issues.

Interviews are especially important in Japan where Office Actions could be rather brief if not cryptic. At the 1984 Conference the JPO stated their intent to write Office Actions with greater particularity. Improvements have indeed been noted.

A number of criticisms were leveled against the Japanese patent system during the June 1988 hearing. Mr. Hirsch has responded to these, and I concur with his responses. With regard to the complaint about "patent flooding," I offer several reasons to help explain the large number of patent applications being filed in Japan, none of which has anything to do with a sinister "patent flooding" motivation:

The majority of applications are for improvement inventions rather than basic inventions.

Japan has a proportionally greater number of technical graduates.

Intense competition among Japanese companies stimulates innovative activity.

Many innovative proposals come from non-R&D people.

Japanese companies have a high ratio of patent applications to invention disclosures.

Extensive incentive and reward systems in Japanese companies promote innovation.

There is no shortage of professional patent application drafters.

Patent filing fees are very low in Japan.

Also, complaints have been heard about long pendencies at the JPO. However, delays are perhaps more the rule than the exception around the globe. For example, in the European Patent Office, it takes 5–6 years in electronics and 4 years in biotechnology before a patent issues. In Switzerland, where there is no examination, 6 years can pass before a patent is granted.

CIBA-GEIGY Japan is easily among the top five users of the Japanese patent system among the non-Japanese chemical/pharmaceutical segment of applicants. My colleagues at CIBA-GEIGY Japan believe that they have fared quite well overall in Japan in terms of patent solicitation and patent enforcement. In one major piece of litigation where CIBA-GEIGY sued several Japanese infringers, fairly favorable settlements were reached even though process patents under the old law were involved.

Speaking of process patents, it is important to keep in mind that in 1976 Japan changed from a process to a product protection system. This change was an act of harmonization and was helpful to foreign applicants. A process patent system is pro-

tectionist and works against foreign applicants, which was particularly true in Japan.

My colleagues at CIBA-GEIGY in Japan believe they have also done quite well in the examination process and have prevailed on appeals in the JPO and in the courts. Most notably, they won a significant victory at the Tokyo High Court in 1984 against the JPO on what I call an "incomplete invention/change-in-gist" issue. This amounts to a "Catch 22" situation where an application is rejected on the ground that it covers an "incomplete invention" due to "inadequate" exemplification or data, and when an attempt is made to add the "missing" examples or data, the application is again rejected for the new reason that the addition would change the "gist of the invention."

This problem, which was of particular concern to the chemical/pharmaceutical industry representatives, was discussed at some length at the 1984 JPO Conference. The JPO defended their practice and tried to demonstrate to us based on an analysis of over 30 randomly-chosen patents that the scope of the claims was roughly the same whether one looked at the Japanese, US or European counterpart patents.

Nevertheless, the JPO was receptive and cooperative. They prepared for us guidelines on when and how material could be added to a pending application to "complete" the subject invention without "changing the gist" of the invention and thus avoid rejections. Further improvement is likely inasmuch as a dialog between the JPO and the Japanese industry is taking place on this issue. It will be in the interest of their industry to obtain broader coverage as the trend from narrow improvement inventions to more basic inventions continues and intensifies.

Thus, my colleagues feel they do well and are accorded fair treatment within the Japanese patent system, although they do complain that some examiners still tend to restrict claims coverage to subject matter supported by examples ("incomplete invention" rejection practice), that comparison tests are required sometimes even in cases where no prior art is cited and that composition claims are rejected sometimes unless toxicity data are disclosed. Clearly, if these matters are indicative of the extent and depth of the patent problems in Japan, there is not very much fault to be found with the system.

There never will be patent solicitation or enforcement without travail—whatever the country. This will always be true of Japan, as in Western Europe or the United States.

In conclusion, I'd like to plead that we not be unfair to the JPO. The JPO has exhibited an exemplary spirit of cooperation. They have assisted us in getting to know the Japanese patent system via programs as well as English text materials. We have to keep in mind that filing a US counterpart application in Japan, or anywhere abroad, "as is" will result in a patent which is not worth the paper it is printed on. US patent applicants filing in Japan must use Japanese strategies and not American strategies. This point was the timely subject of a presentation by Gary Samuels at a BNA Conference here in Washington, DC last November.

Thank you again for the opportunity to express my views before you.

FUSION JAPAN K.K.,
Tokyo, 160 Japan, February 27, 1989.

Hon. JOHN D. ROCKEFELLER IV,
Committee on Commerce, Science, and Transportation, Chairman, Subcommittee on Foreign Commerce and Tourism, U.S. Senate, Washington, DC.

DEAR SENATOR ROCKEFELLER: I respectfully request that the attached article be included in the official record of hearings on the Japanese patent system scheduled for February 28, 1989.

The article, published in the Japan Economic Journal of October 22, 1988, represents my views as Representative Director of Fusion Japan concerning the effects of the Japanese patent system on Fusion's business in Japan. Testimony before the Subcommittee on Foreign Commerce and Tourism on June 24, 1988 revealed that many other companies, both large and small, have similar problems. I have also observed that many Japanese companies experience similar difficulties with the Japanese patent system. These experiences suggest that certain changes—such as requiring disclosure of prior art, broadening the scope of claim interpretation, effectively penalizing infringement, eliminating pre-grant patent oppositions, allowing discovery procedures, and providing prompt judicial review and injunctive relief—would benefit both Japanese and non-Japanese companies.

As far as the U.S. high-technology sector is concerned, the opportunity to commercialize its own inventions in Japan is critical to the recovery of reciprocal trade relations between the United States and Japan. The Sense of the Senate Resolution in-

troduced by you as Amendment No. 2675 on July 26, 1988 set the agenda for intellectual property negotiations with Japan. I hope U.S. trade negotiators will act promptly to urge the Japanese government to implement these changes.

Sincerely,

PETER D. MILLER,
Representative Director.

[From the Japan Economic Journal, Oct. 22, 1988]

CAVALIER VIEW OF PATENTS ERODES INCENTIVE

(Peter D. Miller)

Everyone knows what causes trade imbalances—Japan's productivity, undervalued (until 1986) currency, and export-oriented economic structure, versus the U.S.'s lack of international competitiveness, its consumer-oriented, deficit-ridden economy, and overvalued (until 1986) currency. The remedy was obvious: cheapen the dollar, make imports more expensive and U.S. goods more price-competitive overseas, and the trade deficit would wither away.

It hasn't worked. Clearly the causes of trade imbalances are deeper, and the remedies less obvious, than commonly assumed.

TRANSFER OF LEADERSHIP TO JAPAN

The Japanese market is the world's most dynamic, yet exporting to Japan simply isn't worthwhile for many U.S. companies. They key to this mystery is the superior ability of Japanese companies to commercialize new technologies. U.S. companies have an impressive record of inventiveness but have somehow failed to translate it into products, particularly in Japan.

Conventional wisdom attributes U.S. commercialization difficulties to laziness, inattention to customer needs and the arrogance of the scientific priesthood toward mere applications engineering. Whatever merit there may be to these charges, they neglect a far more important factor—the Japanese patent system, which reduces the incentives for foreign companies to commercialize their own inventions in Japan.

INTELLECTUAL PROPERTY NOT TREATED AS PROPERTY

In Japan, intellectual property—patents, trademarks, copyrights and the like—is considered more as a common good than as a right of exclusive possession. This cultural norm operates to disperse the scientific and artistic products of human ingenuity widely throughout Japanese society.

Long delays in issuance of Japanese patents, for example, combined with pregrant public disclosure of patent applications, make trade secrets available to anyone before the patent is awarded. Patent rights are awarded to the first to register them in Japan, not necessarily to inventors. Disclosure of prior art—a previous invention resembling the claimed invention—is not required, and there is no effective penalty for patent fraud.

A very narrow scope of claim interpretation encourages large numbers of filings based on minor variations. Appeals and adjudication can consume so much time (10 to 15 years in some cases) that the technology becomes obsolete awaiting a final determination as to patentability. Cross-licensing (the exchange of two companies' basic inventions) is officially encouraged and virtually forced on companies unable to obtain timely patent protection of their inventions.

Today's trade imbalances are deeply rooted in patent practices restricting foreign companies' ability to commercialize products in Japan. The exchange-rate "fix" leaves large segments of trade untouched because Japanese companies control the technology, as in VTRs.

In emerging areas of technology such as superconductivity, the pattern is repeating itself: Japanese companies have filed more than 2,000 patent applications in this key technology, many describing products or processes that do not yet exist. If granted, these patents will prevent foreign companies from commercializing working products or processes in Japan.

FUSION SYSTEMS' EXPERIENCE

Innovative U.S. companies opting to compete in Japan on the basis of proprietary technology have attained notable success.

A case in point is Fusion Systems Corp., which was the first company to commercialize high-intensity microwave-driven light sources. In contrast to conventional light sources that use electrodes to energize the lamp, microwave energy activates plasmas that emit light with high intensity, reliability and control. The lamp systems are used for high-speed curing of inks, coatings and adhesives, and for manufacturing graphic arts films and plates, semiconductors and many other products.

Fusion first sold its products in Japan in 1975, and Japanese customers welcomed the new technology.

A large Japanese electronics company that is part of a major industrial group purchased a Fusion product in 1977, reverse-engineered it, and filed more than 200 patent applications on the same technology over the next several years. In one case, the competitor's application for a patent on an electrical circuit contained a slightly altered copy of the drawing in the Fusion instruction manual with no functional difference whatsoever.

In another case, the competitor's application differed from the Fusion prior art only in regard to a function which, though claimed in the patent application, did not work as claimed. In general, the competitor's patent applications were trivial modifications of the basic Fusion design.

Fusion must oppose this flood of patent applications or risk losing its own technology, and with it the Japanese market. The competitor's objective is to obtain through paperwork a patent position in Japan that will force Fusion to cross-license its basic technology.

A SYSTEMIC PROBLEM

The Japan Patent Office is burdened by a workload consisting of 540,000 applications per year, to be judged by only 856 examiners. If the system has difficulty distinguishing real inventions from copies, this is not the fault of the Patent Office or of its hard-working examiners.

Each examiner has less than half a day to study all the materials submitted in a patent application—clearly an impossible task. Large Japanese companies employing hundreds of patent specialists, who are rewarded for the quantity of their output, exploit the system by flooding the Patent Office with large numbers of applications often containing trivial modifications of previous inventions.

Recent testimony before the U.S. Senate Commerce Committee revealed other cases of abuse of the Japanese patent system.

Corning was told that its patent application would be granted if it specified the percentage of an ingredient in a chemical compound. Shortly thereafter a Japanese competitor was granted a patent on a compound with a one-percentage point difference of the same ingredient. This difference had no effect whatsoever on the performance of the product, but it was sufficient for the Japanese company to avoid infringing the original U.S. technology under Japanese practice.

SPECIFIC IMPROVEMENTS NEEDED

Japan has initiated improvements in patent administration by broadening the scope of patent applications, effective since January 1988. In February 1988 the Committee on Problems of Patent Administration called on large companies to carry out thorough self-examination as to patentability before filing applications.

In addition to the Committee's recommendations, the following specific actions would improve the fairness and effectiveness of the Japanese patent system:

Requiring disclosure of prior art in patent applications.

Broadening the scope of patent claims and claim interpretation to discourage applications based on trivial variations.

Effectively penalizing infringement and fraudulent patent filings.

Keeping applications secret until granted.

Eliminating pre-grant patent oppositions.

Providing patent owners with effective means of learning facts surrounding alleged acts of infringement (discovery).

Providing prompt court appeal of patent office decisions.

Making injunctive relief available.

Japan, as a leader in technology, should welcome such change, since the basic purpose of any patent system is to foster innovation and contribute to the stock of new technology. In fact, the resulting stimulus could create a renaissance of inventorship in Japan.

Such changes would improve other countries' incentives to export, transfer technology to, and commercialize inventions in Japan. They offer the best (and perhaps the only) prospect for correcting the gross imbalances that now distort world trade.

STATEMENT OF GEORGE B. RATHMANN, CHAIRMAN, AMGEN

Amgen would like to submit the following information in connection with the hearings you are holding on Japanese patent practices. The Japanese patent system presents some unique and possibly unusually difficult patent problems for the biotechnology industry. As will be seen in the following paragraphs, most biotechnology patent applications in Japan have been virtually totally inactive for up to six or more years. As a result, no biotechnology company can know with confidence whether they will be afforded any meaningful protection in Japan and to what extent patent rights will be enforceable.

The customary practice of our company and most other biotechnology companies is to file applications under the Patent Cooperation Treaty (PCT). In addition, many companies have completed filings with the Japanese patent office. Amgen's oldest filing with the PCT dates back to 1982 with a convention date of 1981. To date, Amgen has received no meaningful office actions on any of its patent applications and of course, has been afforded no protection. At this time, over fifteen of Amgen's patents have been published, some for as long as six years. Disclosures in these patents are complete enough to enable a competent biotechnology research group to duplicate Amgen's inventions in 1–6 months as compared to the time and investment necessary to make the invention which generally exceeds ten man years and an elapsed time of 2–4 years. Most significantly, published data on the successful clinical studies or other evidence for commercialization permits foreign firms to select the most promising ideas and begin commercialization at a cost which is a small fraction of that committed by Amgen for all of the candidates.

Although the procedure has not proceeded far enough to determine the scope of the claims that will be allowed, it is often customay in Japan to allow only limited claims closely related to the specific example cited in the original filing. Obvious, closely related activities by others can frequently yield claims of almost comparable scope that are viewed as independent inventions outside the dominance of the original case. The behavior of the Japanese patent office in this regard has led to a mentality in Japan that no patent will be broad enough to prevent a more heavily financed competitor from emerging with nearly a comparable patent position at a relatively early date. Once the larger company which is often a domestic Japanese firm can achieve a standoff on the patent front, they can force cross-licensing and very possibly dominate the marketplace.

Although some of these concerns cannot be fully substantiated at the present time, it is clear that many Japanese firms have no reluctance to enter fields where significant pioneering inventions have been made. What is clear today is that no biotechnology company is secure in believing that his commercial position will not be duplicated at a small fraction of his costs and with little or no innovation or contribution to society.

Even if a biotechnology company is issued a claim commensurate with the scope of the contribution, the outlook is not bright for preventing direct and uninhibited competition. Japanese litigation policies are such as to discourage court action which in turn encourages flagrant infringement in parallel with a plea for "equitable treatment and cross-licensing".

Having examined the tapes of an earlier hearing, we would like to comment on one of the frequently raised questions: "Is the Japanese patent system designed to discourage American inventions from adequate protection in Japan?" It seems to us most unlikely that the system was designed for this purpose, and it also seems likely that it equally disadvantages the development of small firms within Japan as well as the entry into Japanese markets by any firm not presently operating in Japan. The system clearly favors major companies that have established marketing strength whenever the patent system negates an advantage for the patentee. Such companies often appeal to "fairness" and suggest open competition in the marketplace is the appropriate form for determining the winners and the losers.

We would urge your committee to be sure that it has received detailed information from all high technology segments of American industry including biotechnology.

STATEMENT OF DAVID S. GUTTMAN, ESQ.

Submitted to the
Subcommittee on Foreign Commerce & Tourism
of the
Committee on Commerce, Science, and Transportation

UNITED STATES SENATE

February 28, 1989

Senator John D. Rockefeller IV
Chairman, Subcommittee on Foreign
Commerce and Tourism
Senate Commerce Committee
724 Hart Building
Washington, D.C. 20510-4802

Re: 2/28/89 Hearings
EFFECT OF JAPANESE PATENT SYSTEM ON AMERICAN BUSINESS
Submission of: David S. Guttman, Patent Attorney Los Angeles, California
Please include this submission in the published record of the proceedings.

Dear Senator Rockefeller:

As a U.S. patent attorney having extensive experience with the Japanese patent system, I would like to comment on the problems that American companies, particularly small and medium size ones in high tech industries, are having. I would also like to suggest certain improvements that the Japanese government might make to ameliorate these problems, as well as what kind of U.S. legislation and legislative oversight are needed.

My background is somewhat unique, as I have had an unusually full opportunity to see the Japanese patent system at close hand. I began my career in 1974 as a patent attorney at Brunswick Corporation in Chicago, after receiving bachelor's and master's degrees in electrical engineering from MIT and a law degree from Loyola University of Chicago. Assigned a number of important but difficult Japanese patent and trademark applications,

I began studying the Japanese language to improve my understanding and communicate better with our Japanese associates.

Deciding to specialize in Japanese intellectual property law, in 1978 I studied Japanese in Cornell University's FALCON (Foreign Language Concentration) Program. I then moved to Japan in 1979 and worked there in the Japanese language as a U.S. Patent Attorney Consultant at international law and patent offices, first in Osaka and then in Tokyo, for about six years.

In 1982 in Tokyo I chaired the Licenses, Patents & Trademarks Committee of the American Chamber of Commerce in Japan, and began writing a series of comparative articles on the patent and trademark laws of Japan, Korea, and China. My most difficult project was a translation of the Japanese Patent Office's Examination Guideline for Microcomputer-Related Inventions (see attached list).

Today I continue to specialize in Japan-related patent and trademark matters and computer-related law at Spensley Horn Jubas and Lubitz in Los Angeles, which has a considerable number of small and medium-sized American clients doing business in Japan, as well as Japanese clients doing business here. I am a member of the Illinois Bar and admitted to practice before the U.S. Patent and Trademark Office, and a member of the American Bar Association, the American Intellectual Property Law Association and the United States Trademark Association.

During my six years in Japan, I made every attempt to understand the Japanese patent system from a practical viewpoint. I worked on a large number of Japanese applications of American companies, even attending interviews at the Japanese Patent Office (JPO). Often I got to meet American executives of the applicant companies and hear their concerns. The articles that I wrote on Japanese patents and trademarks were intended as an introduction for American business people. During my free time I visited the JPO, making acquaintance of patent office officials, examiners, and clerks, and inspecting many files to understand how patent applications are processed, stored, examined, and registered. I studied both the JPO and private computer systems that are databanks of patent related information.

JAPAN PATENT PROBLEMS OF AMERICAN COMPANIES GENERALLY

To repeatedly ask "Does the Japanese patent system discriminate against Americans?" is neither diplomatic nor productive. Those are fighting words to the Japanese, and American experts differ among themselves about the source of our Japan patent problems.

Ask instead, "What problems have American companies been having in Japan?", and you will find reasonable agreement among American applicants that the following features of the Japanese patent system need improvement. I have divided these into those arising

(A) because the applicant is filing from abroad, and (B) because the system could be more pro-inventor. Here are a few examples in each category.

A. FILING-FROM-ABROAD PROBLEMS:

1. Even in emergencies, a Paris convention priority deadline may not be met by filing an untranslated priority application and shortly afterwards submitting the translation.

2. The deadline for filing certified priority documents is still statutory rather than by rule, and therefore the Japanese Commissioner of Patents cannot suspend or waive the deadline, even in extraordinary situations when justice requires.

3. Nonresident companies are required to file their applications through Japanese patent attorneys, but Japanese companies are not, reducing their filing costs. Further, the Patent Attorneys Association of Japan publishes a minimum fee schedule requiring foreign clients to pay much higher up front fees than Japanese clients.

4. Due to great differences between the English and Japanese languages, the applications of American companies are often poorly translated, yet serious inadvertent discrepancies from the English certified priority document cannot be corrected by amendment. See the attached article, "A Survey of Japanese Examiners' Views of Foreigners' Patent Applications", in which 75% of the Japanese examiners responded that many foreigners' applications can't be understood because the translation is poor (Question #4).

5. Continuation Applications may not be filed by applicants who rely on a foreign priority date, so there is less opportunity to correct a partially defective application or procedural error.

6. In Japanese patent documents and indexes, foreigner's names and addresses do not appear in roman letters. Only an inadequate transliteration into Japanese *katakana* script is used. Often not even the Japanese themselves can correctly decipher a *katakana* transliteration to determine the actual names and addresses of foreign inventors and applicants from these patent publications and indexes.

For example, in Japanese <u>katakana</u> script my last name, Guttman, might be given the pronunciation "GATTOMAN", making it difficult to find in the index or to decipher it back into English. Clearly, foreign names and addresses should not only appear in Japanese script, but also in roman letters. Further, applications of foreign inventors are improperly indexed under their personal rather than family name. Thus, all inventors named "Robert" are lumped together in the Patent Office indexes.

B. SYSTEM COULD BE MORE PRO-INVENTOR:

1. The owner of a basic patent may be required, by an adjudication of the Japanese Commissioner, to license it to the owner of a later improvement patent.

2. Although procuring a patent by fraud is technically illegal and criminal, the JPO has not tried to find an effective way to enforce the statute against applicants who abuse the system by submitting inventions copied from others.

3. An application abandoned by accident, inadvertence, or even an act of God cannot be revived.

4. There is effectively no grace period for novelty-defeating publications or uses inadvertently arising from the applicant's business transactions. Thus, if an American inventor inadvertently publishes a brochure or article describing his or her invention before filing the first patent application on it, the right to patent the invention in Japan is lost. In contrast, U.S. patent law provides a one year grace for such prior disclosures by the inventor.

5. It takes a relatively long time to get a patent in Japan, and one major reason is clearly that there are too few examiners per application.

6. It takes too long to reverse even a clearly erroneous ruling of an examiner. Patent Office appeals take years to be heard because there are too few JPO Appeal Examiners per appeal.

7. The Japanese Opposition procedure before grant, not found in the U.S. and no longer used in Europe, causes significant delays and can be an ordeal, especially for American companies.

8. There are so many marginal patent and utility model applications pending in Japan that is difficult for American companies to translate and monitor the progress of all important applications that might affect their business.

9. Because there is no practical Discovery Process, it is difficult and time consuming to enforce Japanese patents in the courts, particularly process patents.

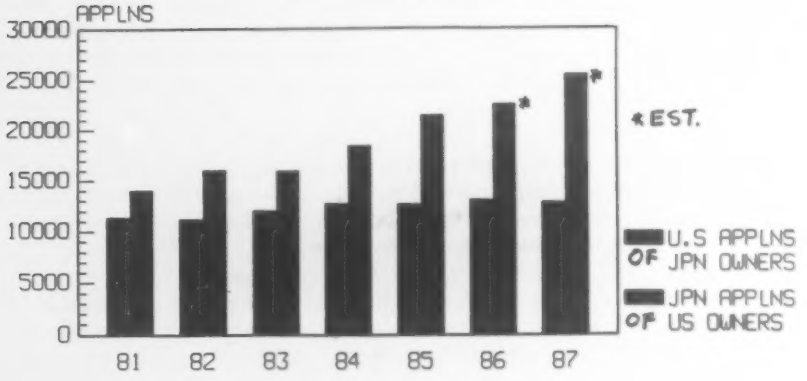
EFFECTS ON U.S. COMPANIES PATENTS IN JAPAN

These problems have taken their toll. Please refer to Chart 1, which shows the numbers of patent applications American and Japanese companies filed in each other's country in recent years. Such applications are the patent "bargaining chips" or leverage these companies hope to use to enter each other's market. While the interest of Americans in Japan has been increasing rapidly in recent years, there has been little increase in

CHART 1

JAPAN AND U.S.A.

Patent Applications in
Each Other's Country

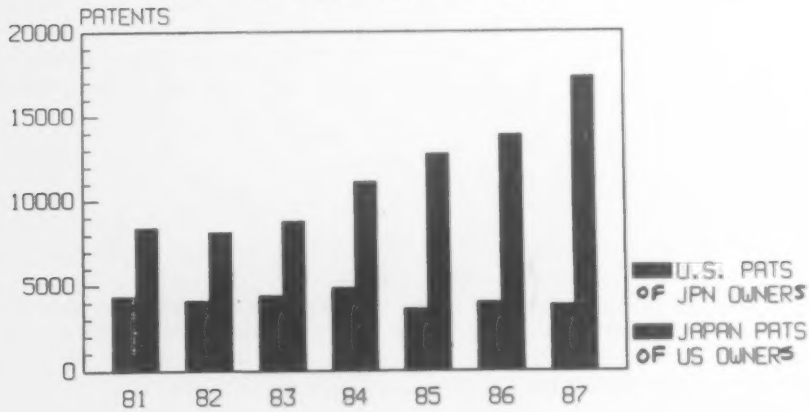


YEAR OF FILING

CHART 2

JAPAN AND U.S.A.

Patents in Each Other's Country



YEAR OF ISSUE

American patent filings in Japan. However, Japanese companies have steadily increased their filings in the U.S., which has a more pro-inventor system.

Next, please refer to Chart 2, which shows the numbers of patents actually issued to American and Japanese companies in each other's country. As you can see, American companies have not been as successful in Japan as the Japanese are here. Moreover, because of the chronic examiner shortage in Japan, there seems to be a falling-off of patents issued to American companies. On the basis of population alone, we would expect U.S. inventors to get twice as many patents in Japan as Japanese inventors get here. In fact, the situation is worse than reversed.

I think these charts are representative of what's been happening to small and medium-sized companies as well as large ones. However, the smaller companies trying to do business in Japan are more greatly affected because their Japanese patent portfolios are so much smaller: these inventions are their crown jewels.

It has been my experience that small and medium-sized companies almost always initially want to patent their inventions in Japan, but that experience soon teaches them that obtaining and enforcing patents there is problematic. Many of my fellow American patent attorneys have told me that they are unenthusiastic about recommending filing patents in Japan to a small or medium-sized company. They say patent examination takes too long and it is too difficult to enforce patents in Japanese courts.

Moreover, the Japanese Patent Office has tended to operate a two-tier system with respect to foreign applicants. A first tier or elite of American and European companies that file large numbers of patent applications in Japan repeatedly have been invited to attend seminars in Tokyo with top JPO officials, to conduct special interviews on their cases, request accelerated examination, etc. This special treatment has tended to mute the elite's willingness to publicly criticize the system's inefficiencies and slow rate of reform.

However, the JPO has done little to relieve the concerns and frustrations of the far more numerous small and medium-sized companies given second tier treatment. Their needs as less frequent applicants can only be met by a patent system which is equally open, transparent, and efficient for all applicants. This includes introducing rules and practices that make the system more user-friendly to foreign applicants.

ABSENCE OF ADEQUATE TRADE SECRET PROTECTION

In addition to such patent problems and deficiencies, Japanese law does not provide adequate protection for American industrial trade secrets and knowhow licensed there. On one hand, Japanese law does not clearly recognize that American companies have a protectible property right in such trade secrets and knowhow against unfair competition. On the other hand, Japan law unabashedly taxes the royalty income of American companies that license their trade secrets and knowhow in Japan.

It is said that unless the above longstanding problems and deficiencies, are promptly remedied, the U.S. Trade Representative (USTR) should include Japan on the "Special 301" list of countries not adequately protecting U.S. technology within their borders, as required by May 30, 1989 under the 1988 Trade Act. It would be far more preferable for Japan to voluntarily promptly make every effort to have the best possible patent system, particularly since Japan has an important leadership role to play in the trilateral and WIPO harmonization efforts and in creation of an Asian Patent Office.

IMPROVEMENTS WILL BENEFIT JAPAN AS WELL AS THE U.S.

It is axiomatic that a country's patent system is set up primarily to help that country, both by stimulating local invention *and* by bringing in the best technology from outside. The way to do this is to reward inventors, of whatever nationality, so they will invest in and develop a local market for their inventions. This is why even the mainland Chinese recently decided to institute a patent system.

The Japanese government wants to reduce its stupendous bilateral $60 billion trade surplus with the U.S. in ways that are least harmful to Japan, such as by importing superior products, services, and technology. It also wants to foster more scientific creativity in Japan. Restoration of the Japanese patent system, so it promptly and reliably awards inventors effective and enforceable patents, would help attain both these goals. The patents awarded promptly to innovative foreign companies would give them an incentive to risk business in Japan, reducing the trade imbalance. The patents awarded promptly to smaller, innovative Japanese companies would help them survive competition from less innovative ones whose stultifying business practices also block imports.

To date, the JPO has focused primarily on majestic spending for concrete and silicon rather than on promptly reforming the law and practice to restore the spirit of rewarding inventors. It has constructed a fine new building and is installing a complex new computer system. But this technocratic approach has its limitations. When the new building is occupied this Spring, it will already be inadequate to accommodate the JPO's growing needs. The unsolved problems of foreign companies are being programmed into the JPO's new computer system more rigidly than ever.

The Japanese government should promptly introduce substantial improvements in patent law, procedure, and practice to restore a modern and international spirit to the system.

To date, even where the JPO has introduced reforms, such as the more flexible claim-drafting rules that became effective January last year, it has typically applied the more liberal rule only to *newly filed* applications. Since the JPO is years behind in examining applications, in practice it will be years before improvements so reluctantly implemented appear in issued patents.

Also, in my experience the JPO has occasionally been guilty of introducing vapor-rules. Vapor-rules are liberal rules primarily drafted for translation into English and announcement to dissatisfied foreign patent attorneys. The foreigners read the English translation of the vapor-rules and believe that substantial reforms have already been implemented. However, Japanese patent attorneys often remain unaware of the new liberal rules because, in fact, such rules are only a tentative internal JPO guideline, perhaps to be published in Japanese some day.

I agree with those who say Americans cannot expect the Japanese to Americanize their patent system. But we can ask them to make it more consistent with their own goal of "encouraging inventions by promoting their protection and utilization to contribute to the development of industry" (Japanese Patent Act, Article 1). Suppose restoration of the Japanese patent system makes it more efficient in processing applications, more polite, responsive and helpful to foreigners, and less likely to issue defective patents. Aren't those characteristics everyone has come to expect and admire in modern Japan? Surely making the system better will make it more Japanese, not less.

SUGGESTED IMPROVEMENTS

Here are some reforms I believe the Japanese must promptly make to restore credibility and vitality to their patent system.

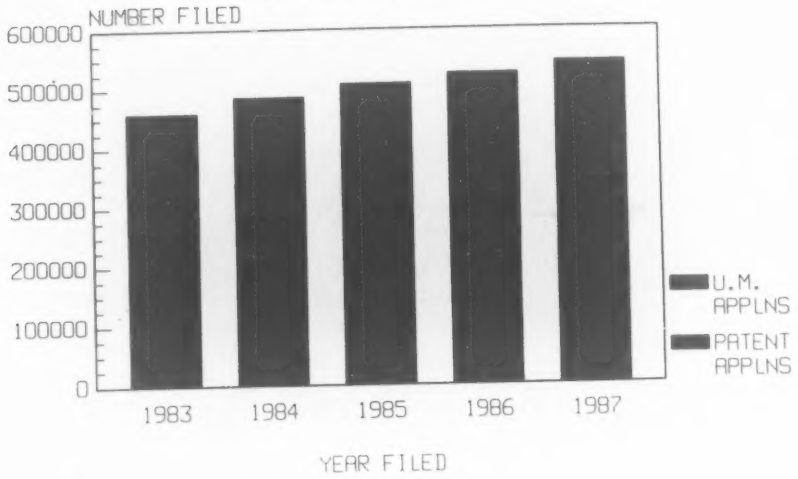
1. The Patent Law should be amended to allow a filing deadlilne to be met by submitting an untranslated application in any language and afterwards providing a translation. A foreign applicant who files a Convention application based on a home country application should be liberally permitted to correct errors in the Japanese translation to conform to the original home country application.

2. The number of applications to be examined per examiner must be significantly reduced. This can done, as U.S. Commissioner Quigg has suggested, by hiring significantly more examiners. Also, the Utility Model system, a quaint relic of preindustrial Japan for protecting trivial inventions, should be eliminated. Please refer to Chart 3, which shows the numbers of Japanese patent and utility applications filed annually in recent years. From this chart, it is clear that simply by eliminating Utility Model filings (trivial inventions), the JPO staff and examiners would be dropping 1/3 of their caseload, i.e. they would have 50% more time to devote to examining patent applications.

Furthermore, the number of Appeal Examiners must be increased and the pendency of appeals from examiners decisions reduced to six months or less. In cases contested between two or more parties, such as trials for cancellation or correction, pendency should be reduced to no more than one year.

CHART 3

JAPANESE APPLICATIONS FILED
Patents & Utility Models



3. To eliminate patent fraud, an appropriate warning notice should be required to appear on each paper signed by an applicant or his attorney. For example, this might appear as:

> IT IS A CRIME TO OBTAIN A PATENT OR TRIAL DECISION BY MEANS OF A FRAUDULENT ACT. JAPANESE PATENT ACT, ART. 197. OFFENDERS CAN BE IMPRISONED FOR UP TO THREE YEARS. IT IS FRAUDULENT FOR AN INVENTOR, APPLICANT, OR ATTORNEY TO FAIL TO DISCLOSE TO THE PATENT OFFICE ANY PRIOR ART KNOWN TO HIM THAT IS RELEVANT TO DETERMINATION OF THE ALLOWABILITY OF ANY CLAIM PRESENTED IN AN APPLICATION.

4. In addition, the Japanese Patent Office should provide a simple accrediting system for those who regularly draft patent applications, either as corporate staff or in the office of patent attorney. The purpose of such accreditation would be to assure that applications are drafted according to the rules and include a full disclosure of all prior art known to the inventors, applicants and their attorneys. Such licensing would increase the professionalism of those who prepare applications and enable the Commissioner of Patents to censure or withdraw the accreditation of those who prepare or submit fraudulent applications.

5. Oppositions before grant should be eliminated in patent cases. The Opposition procedure has too frequently been abused by mass or collusive filings, and it is too time-consuming for examiners to decide Oppositions before grant. Those who wish to oppose a patent may do so by a Cancellation Trial filed after the patent is granted.

6. The Patent Law and rules should be amended to implement broader interpretation of patent claims against infringers and those who make narrow improvements to a basic patent. For infringement cases, the Patent Law should be amended to authorize a court to apply the doctrine of equivalents when equitable, finding infringement even though the infringed claim must be enlarged beyond its literal language to read on the accused device.

7. A one year grace period should be provided to patent applicants so that their application cannot be rejected on the basis of information from or activities by (i) the inventor or applicant, (ii) a person acting on behalf of the inventor or applicant, or (iii) a third party who derived his information about the invention from the inventor or applicant, during the year preceding the application's priority date.

8. The option of deferring examination should be eliminated from all applications filed in the future. The ability of applicants under the current law to defer a request for examination for up to seven years has created a huge backlog of unexamined applications whose impact is very difficult for a small or medium-sized business to assess.

9. The Commissioner of Patents' authority under Patent Act, Art. 92 to arbitrate a compulsory license under a basic patent when requested to do so by one who has obtained an improvement patent should be eliminated. Similarly, the compulsory license provisions "necessary for the public interest" of Patent Act, Art. 93, should be restricted to national emergencies or when ordered as a remedy by a court.

10. Infringement litigation law and procedure should be modified so that either (i) the patent owner can take discovery of the alleged infringer or (ii) the patent owner benefits from suitable presumptions making it unnecessary for him to resort to discovery to prove an infringement.

11. To provide patentees better access to the courts for bringing patent infringement suits, Japanese patent attorneys should be given the opportunity to receive additional training by which they can become qualified to independently prosecute patent infringement suits in the Japanese courts.

FOREIGN PATENT EXPERTS IN JAPAN

I hope in the future we can work out a way for American patent specialists to be based in Japan and work there for American clients on Japanese patent problems with Japanese patent attorneys and lawyers on a basis of mutual professional respect. The present Japanese law and rules admitting foreign lawyers to work as licensed practitioners in Japan rigorously exclude them from working on Japanese patent matters.

CONCLUSION

I hope that this statement has illuminated some of the more serious patent problems encountered by small and medium-sized American companies and the ways that they might be remedied by substantial improvements in Japanese patent law and practice.

Sincerely yours,

David S. Guttman

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February 28, 1989

The Honorable John D. Rockefeller
Chairman, Subcommittee on Foreign Commerce
and Tourism
United States Senate
Washington, D.C. 20510

Dear Senator Rockefeller:

Adolph Coors Company appreciates your Committee's efforts to explore whether U.S. technology is sufficiently protected for world-wide marketing, particularly in the Japanese market. We commend your interest in the importance of protecting U.S. technology and intellectual property rights for the future of American competitiveness.

Since 1955, Adolph Coors Company of Golden, Colorado has been actively involved in the development of aluminum two-piece can technology including can manufacturing equipment, machines and methods. In approximately 1967, Coors Container Corporation (a subsidiary formed to manufacture cans for Coors and to further develop and commercially exploit the Coors can technology) began licensing the manufacture and sale of can coating and decorating machinery. Over the years, new high speed generations of this machine were developed jointly by Coors and others. The sale of this equipment to a Japanese company started a series of events that provided Adolph Coors Company with firsthand experience with the Japanese patent process. While this particular experience turned out favorably for Coors, it provides an example of how Japanese companies work to manipulate their patent system to threaten American companies, American technology and our ability to compete in Japan. Fortunately for us, knowingly copying the work of another inventor constitutes patent fraud in the United States. In large part if it had not been for U.S. patent laws, the following experience could have turned out much differently.

In 1971-74, an American manufacturer of can decorator and coater machines sold and delivered such a machine to a Japanese company in Japan. The machines were invented and designed by employees of the American Company. The American Company was a licensee of Adolph Coors Company. In 1975-76, the licensee declared bankruptcy and its assets were acquired by Adolph Coors Company.

In 1979, unbeknownst to Adolph Coors Company, the Japanese company filed a Japanese patent application which disclosed and claimed the same coater apparatus purchased from the American Company. An employee of the Japanese company was erroneously listed as the inventor. The Japanese company filed corresponding patent applications in several other countries, including the United States, and subsequently received patents in other countries, including the United States.

Thus, the Japanese company had purchased machines designed and made in the United States by an American company; and subsequently applied for patents in Japan and other foreign countries for the same machines.

In 1986-87, a new American licensee of Adolph Coors Company attempted to sell new can decorator/coater machines to a second Japanese company for use in Japan. The new machines included the coater apparatus in the old machines sold to the first Japanese company in 1972-73. The first Japanese company threatened to sue the second Japanese company and/or the American licensee for patent infringement in Japan and other foreign countries.

The Japanese patent application was still pending and under examination in the Japanese patent office. Adolph Coors Company and the new American licensee filed an opposition in the Japanese patent office to issuance of a Japanese patent to the first Japanese company.

Adolph Coors Company also advised the first Japanese company that Adolph Coors Company would take appropriate legal action in other foreign countries, including the United States, where patents had been obtained or patent applications were pending to have the patents declared invalid and to prevent issuance of patents. In the United States, the legal action would have been a declaratory judgment action for a declaration of invalidity and non-infringement of the U.S. patent, a finding of fraud and unfair trade practices, and an award of treble damages and attorneys fees. Under United States law, filing of a patent application in the name of a person who is not the inventor, making a false claim of inventorship and failure to disclose prior art are fraud.

Adolph Coors Company was able to locate documentation that established the prior sale and delivery of the machine to the Japanese company in 1972-73 and also the construction and design of the machine.

When confronted with the evidence and having been made aware of the potential for a determination of fraud and unfair trade practices, treble damages, and an award of attorneys fees in the United States, the first Japanese company agreed to settle the

matter on the basis of withdrawal of its Japanese patent application and withdrawal and/or abandonment of other pending patent applications and patents in other countries, and an agreement not to bring legal action under any patent rights against anyone.

Without having been able to locate satisfactory documentation relating to the sale and delivery in 1972-73, it is doubtful that the Japanese company would have agreed to withdraw its fraudulent claims. It is also doubtful that the Japanese patent office would have sustained the opposition and refused to grant a Japanese patent. If a Japanese patent had been granted, it is doubtful that Adolph Coors Company or the American licensee company could have prevented enforcement of such a Japanese patent.

The critical factor in obtaining settlement was probably the existence of the United States patent which was obtained by fraud and provided a basis for legal action in the United States.

Our ability to protect our technologies and compete in Japan can be severely harmed by the manipulation of the Japanese patent system. While Adolph Coors Company was able to successfully challenge the taking of its can coating and decorating technology, many other companies' experiences with Japanese patent copying are not so fortunate.

Sincerely,

Alan R. Timothy
Director
Federal Government Affairs

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February 28, 1989

Honorable Jay Rockefeller, Chairman
Subcommittee on Foreign Commerce & Tourism
United States Senate
Washington, DC 20510

Dear Senator Rockefeller:

When I was privileged to testify before your Subcommittee on Foreign Commerce and Tourism last June, my testimony focused on the need for reform of the Japanese patent system, with only passing mention of our own dispute with Mitsubishi Electric Company. You and the staff of the Subcommittee made clear that the purpose of the hearing was not to air a particular dispute but rather to explore whether U.S. businesses are having difficulty getting adequate protection for their intellectual property under the Japanese patent system. The Fusion-Mitsubishi dispute is, after all, of greatest importance to our government as an example of a broad pattern of loss of valued technology through manipulation of that system.

It is unfortunate that the printed record of those most informative hearings includes a submission by Mitsubishi Electric Company purporting to describe the nature of the Fusion-Mitsubishi dispute. Regrettably, that submission contains numerous misrepresentations and errors of fact, errors unrebutted on the record to date.

First, Mitsubishi mis-characterizes Fusion's contribution to the field of microwave lamp technology and thereby inflates its own contribution. While others, including Mitsubishi, had been working in the field of low power microwave discharges for many years, Fusion Systems was the first to invent a high intensity microwave lamp. It was that breakthrough which made microwave lamps commercially viable. Further, as Mitsubishi notes, they did receive a "prestigious industry award" in 1983, from a Japanese newspaper, for what they claim as the invention of microwave lamp technology. Fusion had received a similar award ten years earlier, from an American publication, for the same invention. While Mitsubishi says that comparing Fusion's development with that of Mitsubishi "is like comparing a child's scooter to a motorcycle," the fact is that the child's scooter has far outpaced the motorcycle. By Mitsubishi's own accounting, Fusion holds an 80% share of the market niches where Fusion and Mitsubishi compete directly.

Enclosed, for your information, is a Columbia University report, and its transmittal letter to then U.S. Trade Representative Clayton Yeutter, on the technical aspects of Fusion and Mitsubishi technology. The report concludes that Fusion made the original breakthrough in microwave lamp technology and that Mitsubishi has not developed any significant advances of its own.

Second, Mitsubishi claims that 25 patent filings a year in this area of technology do not constitute "patent flooding." For the record, in its 13 year history, Fusion has applied for roughly 75 U.S. patents and is attempting to register about one third of these in Japan. More to the point, however, Mitsubishi began to file its 250 patent applications in late 1977, just after its purchase of a Fusion lamp. Prior to their scrutiny of our lamp, Mitsubishi had not filed for a single patent in the field of high intensity microwave lamp technology. Further, the vast majority of these patent applications are for trivial changes in our technology or, even more damaging, on elements of microwave lamp technology long in the public domain. So vast is the net they have spread that we could not sell Mitsubishi the same lamp they bought in 1977 if all of these patents issue in Japan. It is as though they have sought to patent letters of the Roman alphabet and then claimed authorship of all books written in English.

Third, the Yuasa and Hara legal opinion that Mitsubishi had not copied Fusion's technology is essentially worthless. While Mr. Hara is a widely respected lawyer, he is certainly no expert in the field of microwave lamp technology. No one from his firm ever participated in technical meetings between Fusion and Mitsubishi on this subject. Therefore, it is not surprising that the Yuasa and Hara letter totally fails to address the detailed technical arguments presented by Fusion and left unanswered in meetings between the companies during 1987-1988. Moreover, the Yuasa and Hara firm is in a position of conflict of interest in addressing this matter at all on Mitsubishi's behalf, as they have previously represented Fusion in opposing Mitsubishi patent filings and to this day conduct certain ministerial functions on our behalf.

Fourth, as Mitsubishi asserts, they no longer seek a coercive cross license from Fusion. Nonetheless, prior to the glare of publicity, Mitsubishi began negotiations with Fusion in 1985 by demanding a worldwide royalty free cross license to all of Fusion's technology, as well as an initial license fee and substantial royalty payments. While they have recently abandoned demands for a cross license to our technology, Mitsubishi now seeks a running royalty on all our sales in Japan--a form of taxing us for the right to continue our successful business at all in that country.

We at Fusion believe that these issues should be discussed on the higher plane of what is necessary to protect U.S. innovators abroad. Regrettably, we find it necessary to divert attention for the moment back to the details of our dispute.

We are, as you know, a small company relative to Mitsubishi. We have nonetheless committed ourselves not only to resolving our own dispute but to contributing what we can to leveling the playing field for the benefit of other hardworking and innovative U.S. companies. We welcome your efforts in this regard.

Sincerely,

Donald M. Spero
President

Enclosures. 1/

1/ The enclosures were not reproducible.